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FAR EAST CAPITAL
The Mining Investment Experts

Weekly Commentary

25 June 2022 *Chart comments as at Friday's close* Analyst : Warwick Grigor

A-Cap is reassessing its giant uranium orebody

The market continued to ease over the week. Many charts hit new lows, though there were a number that started to crawl back as bottom fishers moved in. At the close of the week there were 76% of stocks under coverage that were in downtrends. Once the percentage gets greater than 70%, whether it be stocks in downtrend or uptrends, you know that you are close to the turnaround point - within 2-3 weeks. What these numbers don't tell you is whether it will be a quick recovery or something more extended while confidence gradually recovers.

Lindian Resources is bucking the trend

Not every stock falls when the market melts down. There will always be a few that are running on their own merits irrespective of what is happening in the broader market. Lindian (LIN) is a perfect example, closing at a new high on Friday afternoon. We first mentioned Lindian a couple of years ago, citing its high grade conglomerate bauxite projects in Guinea. While the bauxite still holds strong merit, the recent enthusiasm has been more about the high grade rare earths project in Malawi that we referred to over the last couple of weeks.

The Kangankunde rare earths project in Malawi has a JORC resource of 107 Mt of REO at 4.24% REO using a 3.5% cut-off, from surface. The high grade is the stand-out feature. Mineralisation is open at depth and the NdPr proportion is 18-19%.

After being tied up in litigation for a number of years the door has been opened for Lindian to secure control by paying US$30m over 48 months. The initial payment of US$2.5m, due early in August, has mostly been covered by a A$2m placement at 10¢ a couple of weeks ago. It is understood that additional funds will be made available when required.

As we disclose in the panel below, interests associated with FEC own shares and options in Lindian. We view Kangankunde as an advanced project with significantly more merit than many of the early stage exploration discoveries that have been announced to the market in recent months.

Disclosure: Interests associated with the author own shares in Lindian and FEC has received capital raising fees in the past.

When should you hold gold?

Last week I mentioned that gold producers were among the best performers in the violent selldown we have been experiencing in the stock market. Their performance has confirmed the view that gold is first and foremost a safe store of money. Gold is an insurance policy for your portfolio, more so than the speculative asset that many traders want it to be.

I have said that there are strong parallels with the current economics conditions and those we saw saw in the 1970s, starting with a war and embargoes that affected oil prices and the acceleration of an inflationary cycle, so note the following.

Gold was a spectacular performer from 1971, when it came off the gold standard. Over the next decade it ran from US$35/oz to peak at US$850/oz as the move to a fiat currency gave central banks the unconstrained ability to create money and credit. Market forces continually jacked up the price of gold in deference to the principles of the gold standard even though it wasn't formally mandated. It was a rational response at the time.

Gold peaked at that level because up until that point in time, interest rates were less than inflation. Real interest rates were negative, just like they are today. The gold price then fell from 1981 until 2000, when interest rates were lifted above inflation rates and real interest rates became positive.

Today, real interest rates are still very much negative at < 3% while inflation is greater than 8%. This is exactly the time you should own gold assets. If real interest rates become positive e.g. 10% when inflation is only 8%, that is when you should exit gold. Will rates go this high? No-one is actually forecasting this but it depends upon how well the central banks do this job in putting the inflation genie back into its bottle.

The same principle applies for debt. You can safely hold debt while real interest rates are negative. The inflation will eat away at the nominal debt position and that is one reason why governments will be happy to live with inflation for a while. It is actually the only way that they can hope to reduce the huge debt levels they have accumulated over the last 2-3 years without imposing heavy and politically unacceptable tax increases … which would accelerate the swing towards a recession. Governments will continue along this path up until the point where the electorate complains more aggressively about inflation rates than interests rates.

Negative interest rates are good for property owners with mortgages for the same reason, though purchasers at the peak of the real estate boom will also take a haircut on the property value as the early rises in interest rates reduce demand and therefore housing prices.

A-Cap is revisiting the economics of Letlhakane

Some uranium history first

Back in the noughties A-Cap Energy (ACB) was a favourite uranium trading stock, based on one of the worlds largest undeveloped low grade deposits, in Botswana. The Letlhakane resource is 365 Mlb U_3O_8 within 822 Mt at 202 ppm U_3O_8, applying a 100 ppm cut-off grade.

In 2007, there were many low grade uranium deposits around that seemed to have merit based on the extrapolation of the value equation from Areva's US$2.5bn take-over for UraMin, a TSX-listed company. That company had the Trekkopje uranium resource that was quoted as 340 Mt at 140 ppm U_3O_8. Areva planned a 20 Mtpa operation to produce 3,000 tpa U_3O_8, but it never happened.

Letlhakane stacked up very well when compared to Trekkopje. However, the tail end of this takeover story was not pretty for Areva. It is still the subject of judicial enquiries in France today, but that is a story for another day.

The uranium spot price peaked at US$140/lb in 2007, and in 2011, we saw the Fukushima incident kill the uranium price for many years. The uranium sector went into a long winter from which it has only recently emerged due to increasing pressure to employ nuclear power to achieve meaningful carbon emission reductions.

So, the fact that A-Cap was one of many hopefuls that did not succeed at the time is no indictment on the project or the company. A-Cap was just victim of circumstances that dragged many companies down at the time. But, it is a new cycle and things are different now. How different?

A fresh look required

The key to getting any low grade uranium project up and running will be the ability to improve the grade going into the plant by some sort of ore sorting or beneficiation step. Each project will have its own unique geological and metallurgical properties. Elevate Uranium (previously Marenica Energy) has had great success in this regard using a beneficiation process (physical rather than chemical) on carnotite in calcretes. Broadly speaking, Elevate can lift the in-situ grade from 100 ppm to about 5,000 ppm, which makes all the difference when working out the economics.

The huge Letlhakane resource may give flexibility

The above-quoted resource was calculated with a 100 ppm cut off grade. What would it be if that cut-off was lifted to 200 ppm? It would certainly be higher, but it is not just a simple equation. There is more complexity to consider in optimising the economics of the project.

Fifteen years ago it was looked at as a shovel and truck bulk mining exercise with the benefits of very low waste to ore stripping ratios and free digging ore down to 75m vertical depth. The contemplated heap leach mine life was almost unlimited due to the orebody extending over a 15 km strike length. However, it is not that simple.

Mineralisation starts at the surface with up to 5m of calcrete containing carnotite. Beneath the surficial calcrete there is oxide and primary ore where the main ore minerals are orthobrannerite, brannerite and uraninite occurring within narrow mineralised horizons interspersed with barren material. The whole sequence dips very gently west and the deepest ore zones within the mining lease occur at less than 100m

Acid consumption is a key focus

Acid consumption will be a key consideration in defining economic resources. The calcrete material is not amenable to an acid leach because it would consume excessive quantities of acid, so any development plan is likely to stockpile this style of ore for some later stage process. Test work has suggested that different ore zones have different acid consumption and in particular the highest acid consumption is near the basement rocks, so maybe A-Cap will have to leave the lower few metres in the ground. Composite samples taken some years ago gave acid consumption rates of 30-65 kg pt to achieve 65-80% recovery of uranium via a heap leach operation, but there is room to considerably improve on these figure with some judicious selectivity.

Selective rather than bulk mining

This giant uranium system can be interpreted as a series of up to seven stacked lenses. The ability to mine these selectively could be an important factor in lifting the grade. To this end A-Cap is investigating the use of continuous miners that can lift 25cm layers to target the better grades and exclude waste. Modern sensing equipment that can assay every five centimetres would be of great assistance. If this methodology proves viable, and higher mill feed grade is achieved, the company could consider tank rather than heap leaching, and much better control of all aspects of the operation.

The Bottom Line

It is all about gaining a deeper understanding of the orebodies and optimising the mining and the metallurgy of Letlhakane at this juncture. The objective is a smaller, sweeter mine with greater certainty of profitability. Location in one of the best jurisdictions in Africa is a big positive, as is the granted mining licence and a supportive social licence. It is now down to understanding the fine details.

The share price has halved since April (along with just about every other company) and we don't yet know where the bottom is, but the uranium thematic will come again as the world struggles to meet the carbon reduction targets. A-Cap looks like it will provide plenty of leverage to the upside on both the uranium thematic and its own internal optimisation work.

To some extent I find it difficult, as an analyst, to engender enthusiasm for projects that haven't worked before. Yet it would be a failing not to look at them through a fresh set of eyes. Many things can change for the better. Further, remember that a company doesn't have to develop a profitable project in order for share market traders to make money. It just needs to have a good story that it can promote. It needs to have a seat at the table and be one of the possibilities. The overriding thematic will do the rest as money flows into a sector that offers some optimism.

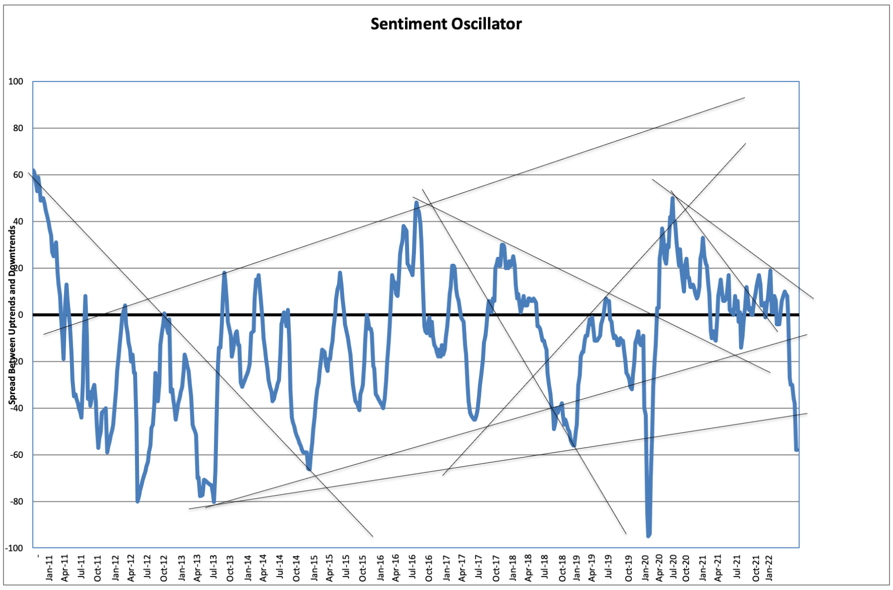
Kingfishers's rare earth exploration project is increasing its dimensions

Kingfisher Mining (KFM) brought out some high grade rare earth assays from rock chip samples at Mick Well last week, generally in the range of 4-5% TREO. The best sample was 21.1% TREO with 3.59% Nd_2O_3 + Pr_6O_{11}. Now I don't want to be accused of getting too excited over rock chip samples, as we need to see what the drill bit returns, but these grades are nevertheless encouraging for the geologists. Maybe we are looking at broader assays in the range of 1-2% TREO.

KFM has now identified rare earths over an 800m strike length, so the dimensions are growing. The current exploration work has also led to the identification of a large number of laterally-extensive high priority targets in a broad area that extends 10 km WNW. Given the proximity to

Hastings' (HAS) mine development at Yangibana and Dreadnought's early exploration results nearby, the region is shaping up to be a very interesting rare earths domain. It is worth keeping an eye on.

The KFM share price had been building nicely up until the point when it was dragged down heavily along with the rest of the market, over the last two weeks. There will be more action over time as information flows accelerate.



Sentiment Oscillator: Sentiment continued to weaken. There were 14% (14%) of the charts in uptrend and 76% (72%) in downtrend on Friday's close.

Detailed Chart Comments

NB. Only the bold comments have been updated. Comments in grey type are from previous weeks and will be less relevant. Please note that this list is a cross section of the market. It IS NOT a list of recommendations.

Indices	**Code**		**Trend Comment**	
All Ordinaries	XAO		continuing to fall vertically	
Metals and Mining	XMM		heavy	
Energy	XEJ		pullback	
Information Technology	XIJ		still falling	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
A-Cap Energy	ACB		new low	uranium
Alpha HPA	A4N		testing uptrend	HPA
Adriatic Resources	ADT		new low	zinc, polymetallic
Advance Metals (was Pacific American)	AVM		down	coal, gold exploration
Alkane Resources	ALK		new low	gold
Alicanto Minerals	AQI		new low	base metals, silver, gold
Altech Chemical	ATC		new low	HPA, anodes
Anteotech	ADO		new low	silicon anodes, biotech
Alto Metals	AME		testing uptrend	gold exploration
American Rare Earths	ARR		new low	rare earths

Antilles Gold	AAU		still down	gold
Arafura Resources	ARU		heavy fall	rare earths
Ardea Resources	ARL		new low	nickel
Aurelia Metals	AMI		new low	gold + base metals
Australian Potash	APC		new low	potash
Australian Rare Earths	AR3		new low	rare earths
Auteco Minerals	AUT		new low	gold exploration
Arizona Lithium	AZL		new low	lithium
Azure Minerals	AZS		new low	nickel exploration
BHP	BHP		new low	diversified, iron ore
Beach Energy	BPT		new uptrend confirmed	oil and gas
Bellevue Gold	BGL		new low	gold exploration
Benz Mining	BNZ		new low	gold
Blue Star Helium	BNL		new low	gas, helium
BMG Resources	BMG		down	gold exploration
Boab Metals	BML		new low	silver/lead
Breaker Resources	BRB		testing support line	gold exploration
Buru Energy	BRU		new low	oil
Calidus Resources	CAI		new low	gold
Capricorn Metals	CMM		bounced off support line	gold
Caravel Minerals	CVV		new low	copper
Castile Resources	CST		still sideways	gold/copper/cobalt
Celsius Resources	CLA		new low	copper
Chalice Mining	CHN		down	nickel, copper, PGMs, gold exploration
Chesser Resources	CHZ		new low	gold exploration
Cobalt Blue	COB		new low	cobalt
Cyprium Metals	CYM		new low	copper
De Grey	DEG		new low	gold
E2 Metals	E2M		new low	gold exploration
Ecograf	EGR		new low	graphite
Element 25	E25		new low	manganese
Emerald Resources	EMR		recovered to highs	gold
Empire Energy	EEG		new low	gas
Euro Manganese	EMN		new low	manganese
Evolution Mining	EVN		slump	gold
Firefinch	FFX		new low	gold
First Graphene	FGR		testing downtrend	graphene
Fortescue Metals	FMG		new low	iron ore
FYI Resources	FYI		new low	HPA
Galena Mining	G1A		new low	lead
Galilee Energy	GLL		hanging on uptrend line	oil and gas, CBM
Genesis Minerals	GMD		down	gold
Genmin	GEN		sideways	iron ore
Gold Road	GOR		down	gold

Great Boulder Resources	GBR		new low	gold exploration
Hastings Technology Metals	HAS		testing support line	rare earths
Hazer Group	HZR		new low	hydrogen
Heavy Minerals	HVY		breached support line	garnet
Highfield Resources	HFR		strong rally	potash
Hillgrove Resources	HGO		long term uptrend	copper
Iluka Resources	ILU		back in downtrend	mineral sands
Image Resources	IMA		new uptrend breached	mineral sands
ioneer (was Global Geoscience)	INR		down	lithium
Ionic Rare Earths	IXR		new low	rare earths
Jervois Mining	JVR		new low	nickel/cobalt
Kingston Resources	KSN		new low	gold
Krakatoa Resources	KTA		new low	rare earths
Kingfisher Mining	KFM		pullback	rare earths
Kingwest Resources	KWR		new low	gold
Legend Mining	LEG		new low	nickel exploration
Lepidico	LPD		breached uptrend	lithium
Lindian Resources	LIN		new high	bauxite
Lion One Metals	LLO		pullback	gold
Los Cerros	LCL		new low	gold exploration
Lotus Resources	LOT		down	uranium
Lucapa Diamond	LOM		new low	diamonds
Lynas Corp.	LYC		testing support line	rare earths
Magnetic Resources	MAU		new low	gold exploration
Mako Gold	MKG		new low	gold exploration
Marmota	MEU		holding short term uptrend	gold exploration
Marvel Gold	MVL		new low	gold exploration
Matador Mining	MZZ		new low	gold exploration
Mayur Resources	MRL		new low	renewables, cement
Meeka Gold	MEK		but pullback	gold
Megado Gold	MEG		back to downtrend	rare earths, gold exploration
MetalsX	MLX		new low	tin, nickel
Metro Mining	MMI		down	bauxite
Mincor Resources	MCR		new low	gold/nickel
Mithril Resources	MTH		down	gold/silver
Musgrave Minerals	MGV		testing downtrend	gold exploration
Neometals	NMT		new low	lithium
Northern Star Res.	NST		breached downtrend	gold
Nova Minerals	NVA		new low	gold exploration
Oceana Gold	OGC		down	gold
Oklo Resources	OKU		spiked through downtrend	gold expl.
Orecorp	ORR		new low	gold development
Oz Minerals	OZL		new low	copper
Pantoro	PNR		new low	gold

Panoramic Res	PAN		down	nickel
Peak Minerals	PUA		new low	copper exploration
Peak Resources	PEK		new low	rare earths
Peel Mining	PEX		new low	copper
Peninsula Energy	PEN		new low	uranium
Poseidon Nickel	POS		new low	nickel
Perseus Mining	PRU		near highs	gold
Provaris Energy	PV1		good rally	hydrogen
PVW Resources	PVW		down heavily	rare earths
QMines	QML		new low	copper
Queensland Pacific Metals	QPM		new low	nickel/cobalt/HPA
Red River Resources	RVR		still down	zinc
Regis Resources	RRL		new low	gold
Renergen	RLT		testing downtrend	gas, helium
Resource Mining Corp.	RMI		at highs	nickel exploration
RIO	RIO		new low	diversified, iron ore
Rumble Resources	RTR		good rally	gold exploration
S2 Resources	S2R		down	gold exploration
St Barbara	SBM		new low	gold
Sandfire Resources	SFR		down	copper
Santos	STO		uptrend	oil/gas
Saturn Metals	STN		sideways	gold exploration
Silex Systems	SLX		at highs	uranium enrichment technology
Silver Mines	SVL		down	silver
South Harz Potash	SHP		down	potash
Southern Cross Gold	SXG		correcting lower	gold exploration
Stanmore Coal	SMR		pullback	coal
Strandline Resources	STA		just holding support line	mineral sands
Sunstone Metals	STM		downtrend	exploration
Talga Resources	TLG		new low	graphite
Technology Metals	TMT		down	vanadium
Tesoro Resources	TSO		new low	gold exploration
Theta Gold Mines	TGM		down	gold
Thor Mining	THR		down	gold exploration
Tietto Minerals	TIE		new low	gold
Titan Minerals	TTM		down	gold
Turaco Gold	TCG		downtrend	gold exploration
Vanadium Resources	VR8		breached uptrend	vanadium
West African Resources	WAF		holding uptrend	gold
Westgold Resources	WGX		down	gold
West Wits Mining	WWI		heavy fall	gold
Whitehaven Coal	WHC		secondary uptrend	coal
Wiluna Mining	WMC		new low	gold
Yandal Resources	YRL		new low	gold exploration

Zenith Minerals	ZNC		new low	gold exploration
Zinc Mines of Ireland	ZMI		new low	zinc
Totals	14%	20	Uptrend	
	76%	109	Downtrend	
		144	Total	

Guides to Chart Interpretations

- Charts usually go pass from one trend (up or down) into the other via a period of indecision and uncertainty during which the trend can either recover or change. This period is signified by the orange colour. The orange represent both the greatest risk and greatest reward possibilities.
- Once a chart is in confirmed up or downtrends it is not uncommon for 10-20% of that trend to have already transpired.
- There are trends within trends. The focus of this chart review is the immediate trend that affects the sentiment i.e. it can be a downtrend within a long-term uptrend.
- Not every chart warrants a new comment every week. The new comments are in bold type. Grey type comments may be dated.
- Individual charts provide a single view. It is valuable to look at charts of other companies in similar commodities, and the overall sentiment is also very valuable. Not many stocks can swim against the tide.
- We periodically add or delete charts, some times for obscure reasons. If a chart consistent gives poor signals or is very erratic, we may delete it. Sometimes we add a chart because we want to see what all the fuss is about. We do have a preference for charting stocks that we cover in our research as well.
- Errors and omissions may occur from time to time, especially in fast moving markets.

Amber Lights in Tables: Just a reminder if when the amber light is used in the table – it is when the charts are ambiguous or when there is a change of trend taking place. If a chart is breaching a downtrend it can either be a positive sign or a trap. Only once it has done more work can it be confirmed as a new uptrend. Maybe it is a new uptrend (or conversely a new downtrend); the risk takers can decide to jump on board early (or sell). They will maximise their profits (or minimise their losses if indeed it is the start of the new uptrend (downtrend). More risk-averse investors should wait a little longer, being prepared to give up some of the gains in return for greater certainty.

Weightings of Sectors Represented in the Company Charts

Sector	No. of Companies	Weighting	
Gold	**31**	**21.5%**	
Gold Exploration	**23**	**16.0%**	
Nickel	**12**	**8.3%**	
Copper	**11**	**7.6%**	
Rare Earths	**11**	**7.6%**	
Oil/Gas	**7**	**4.9%**	
Iron Ore/Manganese	**6**	**4.2%**	
Lithium	**4**	**2.8%**	
Potash/Phosphate	**4**	**2.8%**	
Graphite/graphene	**4**	**2.8%**	
Uranium	**4**	**2.8%**	
Zinc/Lead	**4**	**2.8%**	
Mineral Sands	**3**	**2.1%**	
Silver	**3**	**2.1%**	
Coal	**3**	**2.1%**	

Bauxite	**2**	**1.4%**	
Cobalt	**1**	**0.7%**	
Tin	**1**	**0.7%**	
Diamonds	**1**	**0.7%**	
Other	**9**		
Total	**144**		

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