

29 August 2020

On Friday's Close

Analyst : Warwick Grigor

Enthusiasm dropping back a gear. Introducing Los Cerros

The frenzy that was driving the mining sector seems to have dropped back a gear or two, along with the correction in the gold price. What is next? Maybe we go through a bit of a lull while we wait for the gold bulls to gain control again. For the time being the established gold producers look as if they want to go lower.

Don't look to copper for inspiration just now. After a period of strong gains the copper price has been going sideways since early July, even while LME stocks fell below 100,000 tonnes for the first time since 2007. As with gold, the buying seems to have run out of momentum for copper stocks.

Chinese floods affecting rare earths supply

We are seeing snippets of news flow on the impact of the floods in China. Rare earths production is being affected, so this may be behind the improving prices. Chinese rare earth exports have fallen by 48% in the month of July, YoY.

Positive kimberlite sampling result from Lucapa

On Friday, Lucapa reported that the sampling of the L071 kimberlite pipe resulted in two diamonds being recovered with the largest one being 1.08 carats. You may ask "If the result was positive, why didn't the share price jump?" Let us put it in perspective.

The main aim was to determine whether there were any diamonds in the pipe rather than to determine grade or value. You need a much larger sample to do this. Recovering diamonds is an important first step. So, let's tick that box.

One of the diamonds was Type IIa, which is the valuable category that the alluvial mine specialises in. This means that the alluvial diamonds could have shed from this pipe.

The recovery process used was sub-optimal in that there was no crushing circuit involved, as the alluvial plant doesn't use one. Maybe there were diamonds that weren't sufficiently liberated to be recovered with the equipment at hand.

The Company wants to get around to sampling as many of the prospective pipes that it can during the current dry season rather than linger on the first positive result it gets. Thus the moving to test the next pipe is not a statement that L071 isn't any good. This latest result is pleasing but it is still just another step in the journey.

Disclosure: Nil. Interests associated with the author own shares and options in Lucapa. FEC has received capital raising fees in 2020, from managing a placement and an entitlement issue.

Los Cerros rising from the ashes of Metminco

Los Cerros (LCL) is an interesting gold explorer operating in the Risaralda State of Colombia, in the Mid-Cauca

miocene porphyry belt that hosts large gold and copper deposits such as Titiribi (10.6 Moz), Marmota (14.4 Moz) and Nuevo Chaquiro (30 Moz AuEq).

Los Cerros came into being through the merger of Andes Resources and Metminco in mid 2019, after Metminco ran out of puff. The entity was re-branded as Los Cerros early in 2020, with the two largest shareholders being Sandfire Resources (15%) and Rand Merchant Bank (15%). Both of these parties recently sold their positions. A brief history of Metminco appears further down.

The Quinchia Gold Project is the name given to Los Cerros's regional project. Miraflores, Tesorito and Chuscal are within a 3 km radius and are all prospects within Quinchia.

Miraflores resources is a starting point

Los Cerros has calculated a Measured and Indicated Resource of 9.27 Mt at 2.82 gpt for 840,000 oz at **Miraflores**, but Metminco had calculated a smaller underground ore reserve of 456,000 oz grading 3.29 gpt. With a capex estimate of US\$72m and lower gold prices (modelled on US\$1,300/oz) it was sub-economic at the time.

The Miraflores gold project is interesting and looking more attractive with a stronger gold price, but as it stands it still doesn't look sexy. It needs a better grade, especially in the first couple of years in order to get the capex payback figure closer to 12 months. While one of LCL's priorities is to try and find additional, better grade ore to improve the numbers, there is a much bigger picture to look at.

Exploration is going to be more interesting

What really attracted the new management to the Colombian assets was the seventh drill hole in the **Tesorito** project, to the SE of Miraflores, which returned 256m at 1.01 gpt, effectively from surface. This was drilled perpendicular to hole number two, which had returned 384m at 1.01 gpt. So, suddenly the prospect was demonstrating potential for volume in a structure that appears to be at least 400m x 200m in surface expression.

Doing tasks to get "drill ready"

Much of 2020 has been spent getting ready to drill. First off it announced a \$2m strategic partnership with Hong Kong Ausino for the supply of IP and drilling services, whereby the company could elect to pay for a diamond drill rig and IP equipment with cash or shares.

It then moved to 100% ownership of the Chuscal prospect, introducing AngloGold Ashanti as a 4.3% shareholder in the process. A \$3.5m, two tranche placement at 4c early in July has secured the funding for the next round of drilling, being 2,500m at Tesorito, Chuscal and Miraflores.

On 24th August, LCL announced that the first hole had been completed at a depth of 325m after intercepting potassic alteration with intense porphyry and epithermal veining interpreted to be the core of the Tesorito porphyry. There were visual similarities with other holes on the prospect that delivered wide zones of gold mineralisation. Assays for this latest hole are due in September. In that announcement the company also revealed that it has commissioned a second drill rig, and their own rig, purchased through Hong Kong Ausino, is due to arrive on October potentially making a three rig program of far larger total meters this year

Junior exploration companies and porphyries

I have said on more than one occasion that I get nervous when junior companies get excited about the potential for porphyry targets on their licences. That is because the bigger they are, the more expensive they are to drill and the longer it takes. The cost often exceeds the company's ability to fund it. Nevertheless, there are examples of junior companies and their shareholders that have had great success with porphyry deposits. SolGold is one such example. It helps if you have the "right" porphyry.

The Los Cerros strategy has two elements; drill for high grade to top up the Miraflores DFS, a project well within the reach of a well managed junior, and the long term porphyry story to possibly replicate some of the globally significant discoveries within the same Mid-Cauca porphyry belt.

Using advanced techniques to shorten the odds

Los Cerros has employed Fathom Geophysics to apply a sophisticated 3-D multi-element geochemical modelling technique to the Chuscal geochemical data set. This has identified a high priority target at a depth of approximately 500m, some 50-100m below the four holes drilled in the 2019 drilling program.

The technique compares eleven selected porphyry pathfinder elements from Chuscal surface samples and drill core assays to the distribution of the same pathfinders at the Yerington porphyry, an internationally studied Cu-Mo-Au porphyry deposit in Nevada. Understanding that signature is critical in focussing drilling towards the high grade Cu-Au core of what can be very large mineralised porphyry systems.

The long, low grade intercepts at Tesorito have come from porphyry-style geology. Notwithstanding some good intercepts at Chuscal, drilling hasn't yet hit the main porphyry here. The higher grade has come from later stage epithermal veins that have overprinted the long intercepts of porphyry associated gold like 350m at 0.57 gpt and 320m at 0.43 gpt.

Geopolitical risk is acceptable

Most Australians think of Colombia as a land of drugs and the instability that comes with it, but this is a narrow view that doesn't necessarily reflect the facts. The recent change in government is viewed as being favourable to mining. The State in which Los Cerros operates is mining friendly and it is geologically rich. There are big deposits. Coffee is a valuable farming product in the region so drug growing is not so popular.

The company has about 30 people on the payroll, in-country. Thus the travel restrictions caused by the coronavirus is not an issue. Work is ongoing and in fact, is ramping up.

Value for money?

The market capitalisation of \$25m is modest in this gold climate. There have been a number of very significant intercepts with respect to size rather than grade with these pointing to a large gold endowment. This is "elephant" country, meaning anything is possible. It may be that the heavy lifting has to be done by a joint venture with a major, but let's see what the current drilling program delivers. I'm sure that there will be some larger North American companies doing the same. We have added Los Cerros to our chart coverage.

Some background from when it was Metminco.

Going back about 10 years ago there was a company named Metminco (MNC) that rose to a market capitalisation of hundreds of millions of dollars on the back the huge Los Calatos copper project in southern Peru. It raised \$30m at 20¢ in October 2010 and another \$30m in April 2011, this time at 38¢. Another US\$40m was raised in November 2011, but at a substantially lower price of 14¢. At the time the JORC Mineral Resource was 926 Mt at 0.51% CuEq and multiple drill rigs were running hard. It was declared to be a project of National Interest by the Government of Peru.

By mid-2012 the Mineral Resource had increased to 2.3 Bt at 0.4% Cu and 0.021% Mo. An independent scoping study calculated a 31 year mine life treating 656 Mt, starting with a seven year open pit followed by underground block cave mining, capex of US\$1.5bn and an opex of US\$1.09/lb. Positive news continued to flow but the share price never recovered following the placement at 14¢. The market had lost confidence. It was a death of a thousand cuts from that point as funding a major copper project became too difficult. Numbers were rejigged to try and lift the grade, but this was a rear guard action. The last rites for Los Calatos were effectively read when the Company purchased the Quinchia gold project in Colombia in March 2016, which had a N 43-101 resource of 134 Mt at 0.65 gpt for 2.8 Moz of gold, in two deposits; Miraflores and Dosquebradas. A year later Metminco sold its remaining 49% interest in Los Calatos for a paltry US\$5m to CD Capital Natural Resource Fund LLP.

Metminco reworked the calculations for Miraflores to increase the grade to 3.29 gpt, but the contained gold fell to 456,000 oz. In October 2017, it released results of a feasibility study based on an underground mine using long hole open stoping mining methods. Capital expenditure was estimated at US\$72m and there was no way the company was going to be able to fund that. So, it merged with Andes Resources and management changed. The shares structure underwent a 40 into 1 consolidation, reducing the outstanding issued shares from 6.6 billion to 166 million.

Disclosure: Nil.

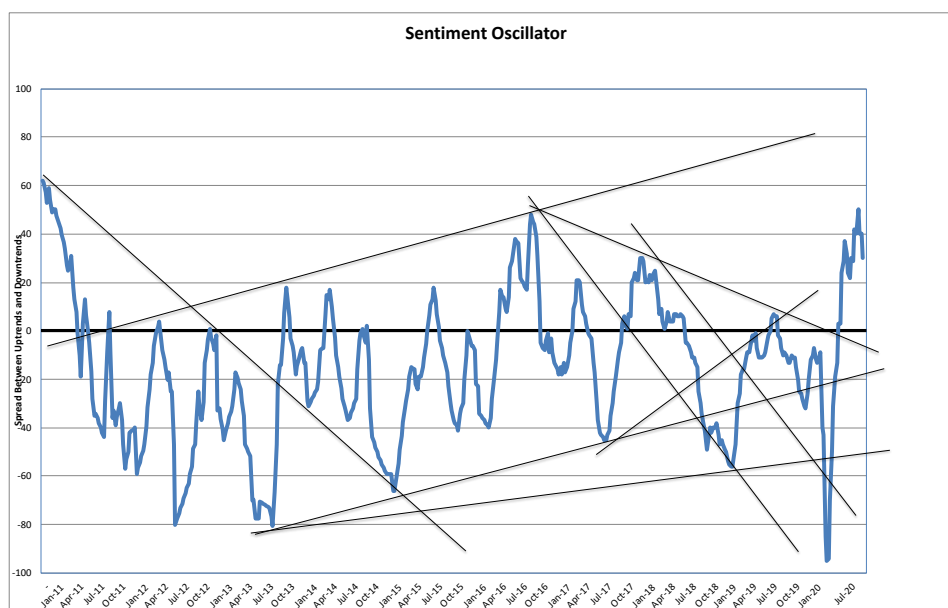
Remember to look at the Sentiment Oscillator

It is in times like this that you need to be looking at the Sentiment Oscillator Chart that we publish each week. How many times over the last 10 years has sentiment been more positive, and when it has been, how long has it stayed up at these high levels? The most recent time was

mid 2016, and prior to that you have to go back to 2010. The market could go higher, but the probability is that it will go lower.

One caveat though is that the stocks in the Oscillator change over time. They are never the same from one year

to the next. We introduce new stocks when they become interesting and delete moribund stocks that are going nowhere. We try and cover what is topical and more likely to be at the centre of attention, where they better reflect market sentiment.




Sentiment Oscillator: Sentiment has weakened further. There were 52% (56%) of the charts in uptrend and 21% (16%) 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 | testing resistance line | |
| Metals and Mining | XMM | testing uptrend | |
| Energy | XEJ | sideways | |
| Stocks | Code | Trend Comment (updated comments in bold) | Main Interest |
| Alpha HPA | A4N | new high | HPA |
| Adriatic Resources | ADT | pullback | zinc, olymetalipc |
| Aeon Metals | AML | new high | copper + cobalt |
| Alkane Resources | ALK | heading lower | gold, zirconia |
| Alicanto Minerals | AQI | surge to new high | base metals, sliver, gold |
| Allegiance Coal | AHQ | sideways | coking coal |
| Alliance Resources | AGS | pullback | gold predevelopment |
| American Rare Earths (was BPL) | ARR | heavy correction | rare earths |
| Apollo Consolidated | AOP | downtrend commenced | gold exploration |
| Arafura Resources | ARU | breached downtrend | rare earths |
| Aurelia Metals | AMI | continuing higher | gold + base metals |









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| | | | | |
|--------------------------------|-----|---|--------------------------------|--|
| Australian Potash | APC |  | strongly higher | potash |
| Auteco Minerals | AUT |  | new high | gold exploration |
| BHP | BHP |  | breaching uptrend | diversified, iron ore |
| Base Resources | BSE |  | rising | mineral sands |
| BBX Minerals | BBX |  | higher | gold exploration |
| Beach Energy | BPT |  | testing downtrend | oil and gas |
| Beacon Mining | BCN |  | gentle downtrend | gold production |
| Bellevue Gold | BGL |  | new high again | gold exploration |
| Blackstone Minerals | BSX |  | rising | nickel |
| Blue Star Helium | BNL |  | testing downtrend | gas, helium |
| Breaker Resources | BRB |  | still in LT downtrend | gold exploration |
| Buru Energy | BRU |  | sideways | oil |
| Buxton Resources | BUX |  | steeply higher | nickel exploration |
| Calidus Resources | CAI |  | sideways at highs | gold |
| Capricorn Metals | CMM |  | breached uptrend | gold |
| Cardinal Resources | CDV |  | surge on takeover bid | gold exploration |
| Central Petroleum | CTP |  | breaching downtrend | oil/gas |
| Chalice Gold | CHN |  | surge to new high | nickel, copper, PGMs, gold exploration |
| Chase Mining | CML |  | hit resistance | nickel/copper/PGE |
| Chesser Resources | CHZ |  | off its highs | gold exploration |
| Cobalt Blue | COB |  | on support line | cobalt |
| Dacian Gold | DCN |  | rallying | gold |
| Danakali | DNK |  | rising | potash |
| Davenport Resources | DAV |  | still in longer term downtrend | potash |
| De Grey | DEG |  | new high | gold |
| E2 Metals | E2M |  | at highs | gold exploration |
| Ecograp (was Kibaran) | EGR |  | stronger | graphite |
| Element 25 | E25 |  | off its highs | manganese |
| Emerald Resources | EMR |  | breached uptrend | gold |
| Euro Manganese | EMN |  | at lows | manganese |
| Evolution Mining | EVN |  | sideways | gold |
| First Graphene | FGR |  | sideways | graphene |
| Fortescue Metals | FMG |  | new high | iron ore |
| Galaxy Resources | GXY |  | rising | lithium |
| Galena Mining | G1A |  | rising | lead |
| Galilee Energy | GLL |  | breached uptrend | oil and gas, CBM |
| Genesis Minerals | GMD |  | uptrend | gold |
| Gold Road | GOR |  | down | gold |
| Highfield Resources | HFR |  | breached support | potash |
| Hillgrove Resources | HGO |  | still in downtrend | copper |
| Iluka Resources | ILU |  | higher | mineral sands |
| Image Resources | IMA |  | higher | mineral sands |
| Independence Group | IGO |  | down | gold |
| ioneer (was Global Geoscience) | INR | | down | lithium |

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| | | | | |
|-------------------------------|-----|---|------------------------------|--------------------|
| Ionic Rare Earths (Oro Verde) | IXR |  | gentle uptrend | rare earths |
| Jervois Mining | JVR |  | surge higher | nickel/cobalt |
| Jindalee Resources | JRL |  | surge out of downtrend | lithium |
| Kin Mining | KIN |  | down | gold |
| Kingston Resources | KSN |  | new high | gold |
| Kingwest Resources | KWR |  | down | gold |
| Legend Mining | LEG |  | sideways | nickel exploration |
| Lepidico | LPD |  | sideways | lithium |
| Lindian Resources | LIN |  | higher | bauxite |
| Lithium Australia | LIT |  | new uptrend | lithium |
| Los Cerros | LCL |  | uptrend | gold exploration |
| Lotus Resources | LOT |  | new high | uranium |
| Lucapa Diamond | LOM |  | pullback on exploration news | diamonds |
| Lynas Corp. | LYC |  | new high | rare earths |
| Mako Gold | MKG |  | breached uptrend | gold exploration |
| Manhattan Corp | MHC |  | breaching support line | gold exploration |
| Marmota | MEU |  | strong recovery | gold exploration |
| Marvel Gold (was Graphex) | MVL |  | hitting resistance | gold exploration |
| MetalTech | MTC |  | breached uptrend | gold |
| MetalsX | MLX |  | sideways | tin, nickel |
| Metro Mining | MMI |  | down | bauxite |
| Mincor Resources | MCR |  | sideways near high | gold/nickel |
| Musgrave Minerals | MGV |  | off its highs | gold exploration |
| Myanmar Minerals | MYL |  | surge to new high | lead, zinc, silver |
| Nelson Resources | NES |  | rising | gold exploration |
| Neometals | NMT |  | testing downtrend | lithium |
| Northern Minerals | NTU |  | steeply higher | REE |
| Northern Star Res. | NST |  | down | gold |
| NTM Gold | NTM |  | sideways | gold exploration |
| Oceana Gold | OGC |  | breached uptrend | gold |
| Oklo Resources | OKU |  | testing uptrend | gold expl. |
| OreCorp | ORR |  | rising | gold development |
| Orocobre | ORE |  | steep uptrend | lithium |
| Oz Minerals | OZL |  | new high | copper |
| Pacific American Holdings | PAK |  | breaching downtrend | coal |
| Pacifico Minerals | PMY |  | testing uptrend | silver/lead |
| Pantoro | PNR |  | breached uptrend | gold |
| Panoramic Res | PAN |  | down | gold , nickel |
| Peak Resources | PEK |  | steeply higher | rare earths |
| Peel Mining | PEX |  | uptrend | copper |
| Peninsula Energy | PEN |  | down again | uranium |
| Pure Minerals | PM1 |  | rising | nickel/cobalt/HPA |
| Pensana Metals | PM8 |  | surge to new high | rare earths |
| Perseus Mining | PRU | | testing uptrend | gold |

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| | | | | |
|------------------------|-----|---|---------------------------------------|-------------------------------------|
| Pilbara Minerals | PLS |  | testing support | lithium |
| Polarex | PXX |  | new high | polymetallic exploration |
| Ramelius Resources | RMS |  | breached uptrend | gold production |
| Red5 | RED |  | rallying | gold |
| Red River Resources | RVR |  | broken through resistance line | zinc |
| Regis Resources | RRL |  | breached trend line | gold |
| Regergen | RLT |  | recapturing uptrend | gas, helium |
| Resolution Minerals | RML |  | rising again | gold exploration |
| Resolute Mining | RSG |  | testing support | gold |
| RIO | RIO |  | down | diversified, iron ore |
| Rumble Resources | RTR |  | rising again | gold exploration |
| Salt Lake Potash | SO4 |  | hitting resistance | potash |
| Saracen Minerals | SAR |  | breaching uptrend | gold |
| St Barbara | SBM |  | on trend line | gold |
| Sandfire Resources | SFR |  | breached downtrend but heavy pullback | copper |
| Santos | STO |  | sideways | oil/gas |
| Saturn Metals | STN |  | new high | gold exploration |
| Sheffield Resources | SFX |  | new high | mineral sands |
| Sky Metals | SKY |  | rallying | gold exploration |
| St George Mining | SGQ |  | down | nickel |
| Silex Systems | SLX |  | breaching uptrend | uranium enrichment technology |
| Silver Mines | SVL |  | off its high | silver |
| Sipa Resources | SRI |  | rising | general exploration - Ni,Cu, Co, Au |
| Stanmore Coal | SMR |  | new low | coal |
| Strandline Resources | STA |  | drifting lower | mineral sands |
| Talga Resources | TLG |  | rising | graphite |
| Technology Metals | TMT |  | on support line | vanadium |
| Tesoro Resources | TSO |  | new high | gold exploration |
| Theta Gold Mines | TGM |  | uptrend | gold |
| Titan Minerals | TTM |  | drifting lower | gold |
| Vango Mining | VAN |  | rising | gold |
| Venturex | VXR |  | testing downtrend | zinc |
| Vimy Resources | VMY |  | down | uranium |
| West African Resources | WAF |  | off its high | gold |
| Westgold Resources | WGX |  | down | gold |
| West Wits Mining | WWI |  | rising | gold |
| Western Areas | WSA |  | down | nickel |
| Whitebark Energy | WBE |  | down | oil and gas |
| Whitehaven Coal | WHC |  | secondary downtrend | coal |
| Wiluna Mining | WMX |  | softer | gold |
| Yandal Resources | YRL |  | breached uptrend | gold exploration |
| Zinc Mines of Ireland | ZMI |  | still in downtrend | zinc |
| Totals | 52% | 74 | Uptrend | |
| | 21% | 30 | Downtrend | |

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| | | | |
|--|--|-----|-------|
| | | 141 | 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 | 35 | 24.8% | |
| Gold Exploration | 24 | 17.0% | |
| Zinc/Lead | 9 | 6.4% | |
| Nickel | 8 | 5.7% | |
| Oil/Gas | 8 | 5.7% | |
| Lithium | 8 | 5.7% | |
| Coal | 5 | 3.5% | |
| Mineral Sands | 5 | 3.5% | |
| Rare Earths | 7 | 5.0% | |
| Potash/Phosphate | 5 | 3.5% | |
| Copper | 5 | 3.5% | |
| Graphite | 2 | 1.4% | |
| Iron Ore/Manganese | 5 | 3.5% | |
| Uranium | 3 | 2.1% | |
| Bauxite | 3 | 2.1% | |
| Silver | 3 | 2.1% | |
| Cobalt | 2 | 1.4% | |
| Tin | 1 | 0.7% | |
| Diamonds | 1 | 0.7% | |

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| | | | |
|-------|-----|--|--|
| Other | 2 | | |
| Total | 141 | | |

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