

## Red River - a welcome success that is yet to be acknowledged in the market

As our financial year comes to a close it is difficult to find much to complain about. The Dow has had its best June Half since 1938. Our All Ords and Mining indices are hitting new highs. The iron ore and gold prices are looking strong even though the trade war dominates the news. Who said that the war was bad for business? The Sabre rattling with Iran and other international spats are not causing the markets any concerns. It seems that all the doomsday fears have been swept aside.

Looking at the bottom end of the market we are once again seeing that new stories are offering much better pickings. The best strategy is to dump those companies that have failed to live up to expectations. Remember that this end is more akin to gambling given the risks, the challenges and the untruths. Abandon those companies that have been stuffed full of stale bulls and look for companies that have tailwinds rather than headwinds. Avoid those companies that are running out of cash with share prices below 2-3¢. Expect more rare earth stories to come to the market but remember that the scramble to gain the spotlight might just be that. Picking up a prospect isn't a guarantee of success in any commodity, even if it does breathe some short term life into a share price.

### *Red River - delivering zinc as promised*

We first mentioned Red River Resources (RVR) a few years back, in about 2016, after a site visit to the Thalanga zinc mine up in Queensland. It was then that I heard the plans that Mel Palancian and his team had to reopen the zinc mine that was previously operated by Kagara Zinc. It all sounded reasonable enough at the time but the Company still had a number of obstacles to overcome, with finance being the most intimidating. Re-commissioning still had to be undertaken. Fast forward three years and I can report that the Company seems to have delivered as promised.

### *First, some history; the timeline to development*

RVR announced the acquisition of Thalanga in July 2014, agreeing to pay \$5m cash, deferred cash of \$1.5m and a 1.5% NSR royalty to Kagara Ltd which was in liquidation. In September 2014, RVR raised \$7.5m at 10¢ a share, then in October 2014, it placed another \$3.6m worth of shares at 18¢, enabling the completion of the acquisition later that month.

When the deal was announced the share price was 22¢ and the market capitalisation was \$33m, but by December 2014, the price had fallen to 13¢ and the market capitalisation to \$22.5m.

The Thalanga Project comprised a 650,000 tpa polymetallic treatment facility on care and maintenance, and a JORC Resource of 3.8 Mt at 0.9% Cu, 2.4% Pb, 8.2% Zn, 0.6 gpt Au and 41 gpt Ag. It had previously treated ore over a 25

year period from 1989 to 2012, in four identifiable campaigns. At the time RVR intended to re-start the mill in Q4 2015.

By mid 2015, RVR had expanded the total Thalanga resource to 5 Mt at 8.4% Zn Eq. The share price and capitalisation had not changed from six months earlier.

By October 2015, the Re-Start Study was released, showing life-of-mine average C1 costs of US\$0.18/lb of payable zinc and pre-production costs of A\$17.7m. Next, there was placement at 10.5¢ that raised \$3.9m. Another \$8.9m was raised at 12¢ a share, eight months later, in July 2016. Refurbishment work commenced in September 2016, and another \$30m placement was completed in December, at 18.5¢, meaning that the project was fully funded.

Although RVR was ready to commence, the restart funding took longer than expected because the commodity and capital markets deteriorated in 2015, and the first half of 2016. RVR's strategy was to ensure a traditional and clean funding path, which required patience.

Eventually, in April 2017, the first run-of-mine ore was hauled from the underground workings. Over the next few months the recommissioning of the plant was undertaken and first concentrates were produced in September 2017, some 21 months later than first forecast. From mid 2014 to first production the Company had raised \$50m in equity capital, with a cash balance of \$19.5m still in the kitty. The share price was trading around 23¢, where it was when it first announced the deal, but the market capitalisation had risen almost four fold to about \$110m. So, the company had grown but the initial shareholders had been treading water. Those who took placements at 10¢-18¢ were faring better.

The first receipts from the sale of concentrates were received in November 2017, and RVR reported EBITDA of \$3.7m in the subsequent March quarter. In the year to June 2018, the Company reported EBITDA of \$11.8m, with indicative C1 costs of US\$0.55/lb Zn. Thus the project was up and running but cash costs were still higher than the life-of-mine average forecast.

Fast forward to the March Quarter of 2019, and the story was looking better. C1 cash costs had come down to US\$0.14/lb Zn. EBITDA for the quarter was \$12.5m. It was a good quarter.

### *The position today ...*

Even though Thalanga took longer to bring on stream, it is more important to get the project right rather than to get it done quickly. Shareholders haven't yet reaped super profits on their investments, but they shouldn't be lying in bed at night wondering whether the company has a good future or not.

The Company is basically delivering on what it set out to do. The plant is working at 90-100,000 tonnes per quarter on two of the three mills, at costs in-line with forecasts. It went into the commissioning phase with ample cash and no debt and it is now in a position where it can generate cash of \$4-5m per quarter with the major variable being commodity prices. Zinc accounts for about 55% of revenue, so it is more of a zinc play than anything else. The resource has doubled over the last four years. Cash levels at the end of March 2019 were strong, at \$21.2m

#### *but the share price is falling...*

The market can be a hard task master. It is not paying much attention to a sub-\$100m zinc miner, ignoring the operation and financial success being demonstrated. The share price is continuing in a downtrend with no obvious support level. Does it need to get above the magic \$100m mark to suck in some institutional buyers?

If the annual cash generation is about \$20m, meaning a cash generation multiple of 4x, and a mine life of more than four years, you can certainly say there is no premium in the share price. As the market always looks ahead, what is there about which we can afford to be optimistic?

#### *... but where to next?*

An attention seeker would be lying awake in bed at night wondering how it can get buyers into the stock. Even if you were not an attention seeker, but just a CEO listening to the gripes of shareholders, you might have the same concerns. However, from what I can tell about RVR, it is more focused on getting the business right as opposed to finding the next magic card to please the traders.

Recently we questioned whether deals done by some of our gold producers will be seen to be wise, in the fullness of time. At least one of those companies has a view that being a larger gold producer will make it a more tasty meal for a predator, but that isn't necessarily playing the value game. It is a high risk exit strategy.

RVR is about doing smart deals that create shareholder value. The team has done it once with Thalanga and that has given it a cashflow and a platform. It can grow organically by bringing on neighbouring orebodies such as those at Waterloo and Liontown, at minimal risk. Together these would require \$20m p.a. for the next couple of years, so there is unlikely to be much room for dividends in the near term, but there is good leverage in expanding the throughput of the plant.

The CEO has quite rightly observed that there are plenty of mining projects that stuff up in the development phase. Rather than pursue an expensive greenfields development

project he is more inclined to wait until they stumble or even fail, and then set his team to doing what should have been done, with the benefit of hindsight. In the meantime, the best approach for shareholders is to further develop existing assets.

#### *The bottom line*

Red River has successfully delivered on its operational plans and the benefits are starting to flow through to the bottom line. There is still a strong element of modesty about the company at present and as a result the share price is not carrying a premium in the market. The earnings outlook will continue to be vulnerable to commodity price movements (as with all commodity producers) but management and project development risks are considered to be lower than the average. It is a company that has reached first base but it could have a lot more to offer by continuing to do what it does best. The market will eventually wake up to its merits, sooner or later, and the price will be re-rated.

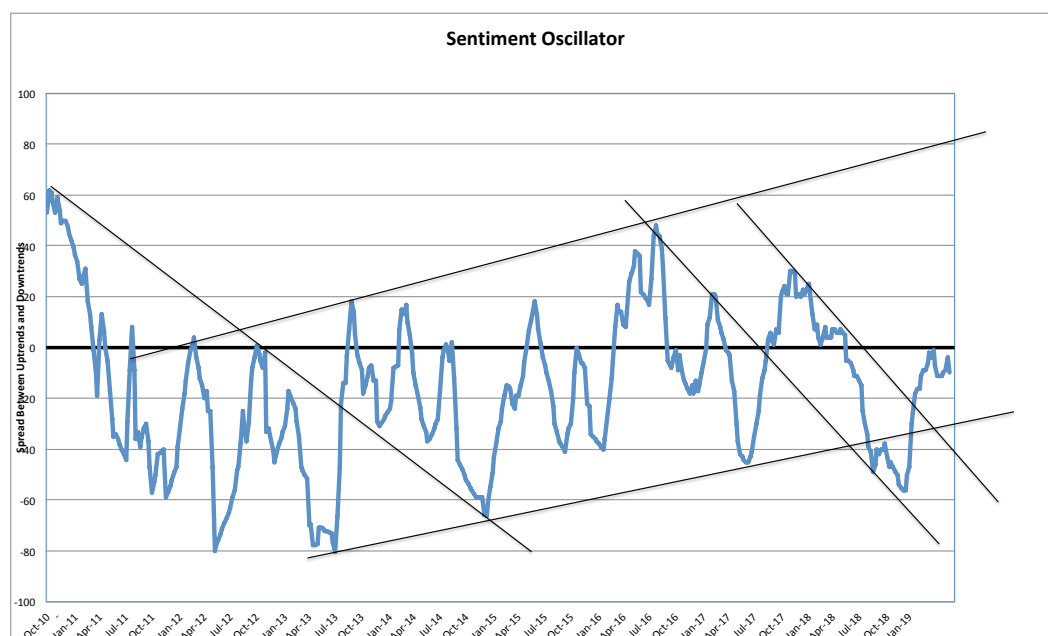
#### *Capricious enforcement of regulations isn't good*

The market frequently get stocks wrong even with continuous disclosure. Continuous disclosure is not the same as complete disclosure, and selective disclosure is another problem. No amount of proscriptive legislation is going to make markets perfect especially when you consider the dynamics of human emotion.

In order to have confidence in a regulatory system it is important that there is objectivity, equity and timeliness. There is no point in having the regulation if it is not administered in such a way that those being regulated feel that there is a level playing field - that all are equal before the law. The complexity and the cost of doing this in our equity markets means that the law is enforced in a haphazard way, and that means that there is no real justice. It is more about terrorism and intimidation, about bullying and threatening with higher profiles meaning you are more likely to be victimised. There is no justice in that.

When the regulators talk about the need for a level playing field (as if they even exist), it needs to be applied to law enforcement as well.

*Disclosure: Nothing to disclose this week*



**Sentiment Oscillator:** Sentiment dipped over the week, probably due to end of financial year cleanouts. There were 31% (31%) of the charts in uptrend and 41% (37%) 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	near highs	
Metals and Mining	XMM	new high	
Energy	XEJ	back to LT uptrend, at apex of wedge	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
Adriatic Resources	ADT	rising but on shallower line	zinc
Aeon Metals	AML	back in downtrend	copper + cobalt
Alacer Gold	AQG	new high	gold – production
Alkane Resources	ALK	stronger on rare earth thematic	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Alchemy Resources	ALY	sideways near lows	nickel, cobalt
Alicanto Minerals	AQI	rising	gold exploration
Allegiance Coal	AHQ	new high three pullback on placement	coal
Alliance Resources	AGS	still down	gold exploration
Altech Chemicals	ATC	down	industrial minerals - synthetic sapphire
Apollo Consolidated	AOP	stronger	gold exploration
Argent Minerals	ARD	down	silver
Aurelia Metals	AMI	testing downtrend	gold + base metals
AusTin	ANW	new low	tin, cobalt
Australian Bauxite	ABX	sideways	bauxite




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Australian Potash	APC	<span style="color: red;">■</span>	in a wedge	potash
Australian Mines	AUZ	<span style="color: red;">■</span>	strong rise, but heavy pullback	cobalt/nickel
Australian Vanadium	AVL	<span style="color: red;">■</span>	new low	vanadium
BHP	BHP	<span style="color: green;">■</span>	new high	diversified, iron ore
Base Resources	BSE	<span style="color: orange;">■</span>	pullback	mineral sands
Bathurst Resources	BRL	<span style="color: orange;">■</span>	sideways	coal
Battery Minerals	BAT	<span style="color: red;">■</span>	new low	graphite
BBX Minerals	BBX	<span style="color: green;">■</span>	pullback	gold exploration
Beach Energy	BPT	<span style="color: orange;">■</span>	breached uptrend	oil and gas
Beacon Mining	BCN	<span style="color: green;">■</span>	new high	gold production
Bellevue Gold	BGL	<span style="color: green;">■</span>	near high	gold exploration
Berkeley Energia	BKY	<span style="color: red;">■</span>	in secondary downtrend	uranium
Blackstone Minerals	BSX	<span style="color: red;">■</span>	hitting resistance	gold, cobalt
Bounty Coal	B2Y	<span style="color: red;">■</span>	still in downtrend	coal
Breaker Resources	BRB	<span style="color: orange;">■</span>	drifting	gold exploration
Broken Hill Prospecting	BPL	<span style="color: red;">■</span>	at lows	minerals sands
Buru Energy	BRU	<span style="color: green;">■</span>	new uptrend	oil
Buxton Resources	BUX	<span style="color: orange;">■</span>	testing downtrend	nickel exploration
Cardinal Resources	CDV	<span style="color: red;">■</span>	bounce from lows	gold exploration
Cassini Resources	CZI	<span style="color: green;">■</span>	consolidating	nickel/Cu expl.
Celsius Resources	CLA	<span style="color: red;">■</span>	volatile	copper/cobalt
Chalice Gold	CHN	<span style="color: orange;">■</span>	testing downtrend	gold exploration
Chesser Resources	CHZ	<span style="color: orange;">■</span>	surged out of downtrend, then heavy pullback	gold exploration
Cobalt Blue	COB	<span style="color: orange;">■</span>	sideways at lows	cobalt
Dacian Gold	DCN	<span style="color: red;">■</span>	collapse on operations update	gold
Danakali	DNK	<span style="color: orange;">■</span>	sideways to lower	potash
Davenport Resources	DAV	<span style="color: red;">■</span>	down	potash
Egan Street Resources	EGA	<span style="color: orange;">■</span>	drifting	gold
Emerald Resource	EMR	<span style="color: orange;">■</span>	sideways	gold
Evolution Mining	EVN	<span style="color: green;">■</span>	rising	gold
Exore Resources	ERX	<span style="color: orange;">■</span>	sideways	gold exploration
FAR	FAR	<span style="color: orange;">■</span>	sideways at lows	oil/gas
First Graphene	FGR	<span style="color: green;">■</span>	uptrend	graphene
Fortescue Metals	FMG	<span style="color: green;">■</span>	new high	iron ore
Galaxy Resources	GXY	<span style="color: red;">■</span>	new low	lithium
Galena Mining	G1A	<span style="color: green;">■</span>	consolidating near highs	lead
Galilee Energy	GLL	<span style="color: green;">■</span>	new high	oil and gas, CBM
Gold Road	GOR	<span style="color: green;">■</span>	at highs	gold
Graphex Mining	GPX	<span style="color: green;">■</span>	continuing in uptrend	graphite
Heron Resources	HRR	<span style="color: orange;">■</span>	sideways	zinc
Highfield Resources	HFR	<span style="color: green;">■</span>	surge to new high then heavy pullback	potash
Hillgrove Resources	HGO	<span style="color: orange;">■</span>	sideways	copper
Hipo Resources	HIP	<span style="color: red;">■</span>	at lows	battery metals
Iluka Resources	ILU	<span style="color: green;">■</span>	stronger	mineral sands

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Image Resources	IMA		higher	mineral sands
Independence Group	IGO		indecisive	gold, nickel
ioneer (was Global Geoscience)	INR		down again	lithium
Jervois Mining	JVR		breached uptrend	nickel/cobalt
Jindalee Resources	JRL		start of a new uptrend	lithium
Karoo Gas	KAR		breached new uptrend	gas
Kasbah Resources	KAS		new low	tin
Kibaran Resources	KNL		breached new uptrend	graphite
Kin Mining	KIN		new low	gold
Legend Mining	LEG		sideways to lower	nickel exploration
Lepidico	LPD		testing downtrend	lithium
Lithium Australia	LIT		continuing downtrend	lithium
Lucapa Diamond	LOM		continuing downtrend	diamonds
Lynas Corp.	LYC		coming back from high	rare earths
Mako Gold	MKG		back to lows	gold exploration
Marmota	MEU		sideways	gold exploration
MetalsX	MLX		breached downtrend	tin, nickel
Metro Mining	MMI		new low	bauxite
Mincor Resources	MCR		new uptrend forming	gold
Musgrave Minerals	MGV		down	gold exploration
Myanmar Minerals	MYL		uptrend being tested	zinc
Nelson Resources	NES		strong rally	gold exploration
Neometals	NMT		testing downtrend	lithium
Northern Cobalt	N27		down again	cobalt
Northern Minerals	NTU		surged to reach resistance line	REE
Northern Star Res.	NST		new high	gold
NTM Gold	NTM		gentle downtrend	gold exploration
Oceana Gold	OGC		testing downtrend	gold
Oklo Resources	OKU		bounce from lows	gold expl.
Orecorp	ORR		correcting back to support line	gold development
Orocobre	ORE		new low	lithium
Oz Minerals	OZL		rising again	copper
Pacific American Coal	PAK		at lows	coal
Pantoro	PNR		testing support line	gold
Panoramic Res	PAN		down	gold , nickel
Peak Resources	PEK		surging to new high	rare earths
Peel Mining	PEX		still down	copper
Peninsula Energy	PEN		tracing back to resistance/support line	uranium
Pensana Metals	PM8		surge to high	rare earths
Perseus Mining	PRU		surge to new high	gold
Pilbara Minerals	PLS		down	lithium
PNX Metals	PNX		lower	gold, silver, zinc
Polarex	PXX		surge higher	polymetallic exploration
Prodigy Gold	PRX		testing uptrend	gold exploration

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Ramelius Resources	RMS		breached uptrend	gold production
Real Energy	RLE		back to lows	gas
Red5	RED		new high	gold
Red River Resources	RVR		pullback after breaching downtrend	zinc
Regis Resources	RRL		rising	gold
Resolute Mining	RSG		breaching resistance line	gold
RIO	RIO		new high	diversified, iron ore
Salt Lake Potash	SO4		surged higher	potash
Saracen Minerals	SAR		surged higher	gold
St Barbara	SBM		testing downtrend	gold
Sandfire Resources	SFR		down	copper
Santos	STO		into uptrend	oil/gas
Sheffield Resources	SFX		back to lows	mineral sands
St George Mining	SGQ		down	nickel
Sipa Resources	SRI		recovered, to sideways pattern	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		new high	coal
Strandline Resources	STA		pullback after placement	mineral sands
Sundance Energy	SEA		heading lower	oil/gas
Syrah Resources	SYR		free fall on capital raising	graphite
Talga Resources	TLG		down	graphite
Technology Metals	TMT		short term down	vanadium
Tiger Realm	TIG		surged higher, at resistance line	coal
Triton Minerals	TON		breached secondary downtrend	graphite
Troy Resources	TRY		bounced off its lows	gold
Vango Mining	VAN		breached downtrend	gold
Vector Resources	VEC		suspended	gold
Venturex	VXR		down	zinc
Vimy Resources	VMY		down	uranium
Volt Resources	VRC		sideways	graphite
West African Resources	WAF		improving	gold
Westwits	WWI		down	gold
Western Areas	WSA		ST uptrend breached	nickel
Whitebark Energy	WBE		sideways	oil and gas
Whitehaven Coal	WHC		down	coal
Yandal Resources	YRL		sideways	gold exploration
Totals	31%	43	Uptrend	
	41%	57	Downtrend	
		138	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	22.5%
Gold Exploration	18	13.0%
Oil/Gas	9	6.5%
Graphite	7	5.1%
Nickel	9	6.5%
Coal	8	5.8%
Lithium	8	5.8%
Mineral Sands	6	4.3%
Zinc/Lead	6	4.3%
Potash/Phosphate	5	3.6%
Copper	5	3.6%
Cobalt	4	2.9%
Rare Earths	4	2.9%
Tin	3	2.2%
Iron Ore	3	2.2%
Uranium	3	2.2%
Bauxite	2	1.4%
Vanadium	2	1.4%
Silver	1	0.7%
Diamonds	1	0.7%
Other	3	
Total	138	

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