

Introducing the FEC Sentiment Oscillator and Updates on Red River Resources, Santana Minerals and West Wits

It was another strong week for the All Ords. Nothing came out of left field to upset the apple cart. Gold responded well to the decision by the Fed to keep interest rates on hold. It seems that no-one wants to cause any ructions while the northern hemisphere enjoys its summer holidays. A number of the mining stocks under chart coverage fell back to support lines but that isn't unreasonable and it hasn't changed the big picture view.

While talking about the big picture, we have published the FEC Sentiment Oscillator for the first time. See below for a description of what it means and how to use it.

Status of the mining markets at the end of July

With the markets being well behaved, and so much money having been made over the last six months, it is worth pointing out that the best performing stocks have often been the ones that were in the greatest danger of going broke at the start of the year. Back then shareholders were desperate to bail out as company cash balances fell closer to zero and survival was a real issue, but since then the turnaround has been dramatic with many share prices improving by 3-5x.

We are now in a market where we need to be asking ourselves whether these same companies have enough value and broader appeal to move higher i.e. where will the next round of buying come from? We also have to ask whether they are about to have a share issue and what this will mean for future share price movements. It is almost inconceivable to think that we will see the same percentage movements in prices over the next six months.

There are a number of larger companies still less than \$100m in size that have been relative under-performers in the market, but which have significant non-gold assets that will appeal to more fundamental and institutional investors. It takes more effort to get these prices moving, but that will happen as institutions re-weight and traders take profits on the smaller, more volatile stocks. Two candidates in this field are Highlands Pacific and Mineral Deposits.

Santana Minerals - assessment of recent drilling

SMI recently completed an early stage 14 hole drill program at its Cuitaboca silver project in Mexico. The first four holes reported included a sexy intercept of 83m at 97 gpt Ag which caused a spike in the share price, but there wasn't much of a reaction in the market upon the release of the subsequent 10 holes. It's time put them all in perspective.

The first point is that it was a very successful first pass program, achieving a success rate of 70% on virginal drilling. (This compares with a 50% rate on the Palmarejo project when that was first drilled). The program demonstrated the repeatability of trenching results in drill holes at depth, with consistent geometry that is enhanced by periodic changes in strike that facilitate better zones of

mineralization. Thus the interpretation of the geology has been confirmed.

Exploration by previous licence holders had focused on the high grade zones rather than widths. As so often happens this approach gave biased sampling results that blinded geologists to the big, economic picture. SMI on the other hand is fully cognisant that you need to step back and assess the whole system rather than localised high grades. By doing so you are more likely to define and develop economic silver mines of good scale.

So, the company has now scout drilled 30% of the strike length of Mojardina, at the NW end. While the rainy season is underway the Company is seeking approvals for the next drilling program and associated roadwork, scheduled for September/October. This will be expansionary in nature along the strike length rather than infill drilling.

The bottom line is that there has been no change to the easier guesstimate of 80-100 Moz of silver at around 80 gpt Ag.

Elsewhere on the licences the Jesus Maria prospect to the north is showing signs of being a repeat of Mojardina, but with a gold flavour added to it. Some 5 km further to the north, where the system graduates to a gold rich environment, the Lupita gold prospect is showing signs of being a hydrothermal haematite system capable of hosting 1-2 Mt of high grade gold ore. One of the best examples of this style is Gosowong, in Indonesia. Locally, the San Jose de Gracia Mine, 5 km to the SE, has produced over one million ounces of gold at grades of 30-60 gpt Au. There remains about another one million ounces in 43-101 resource categories. If SMI was to receive any encouragement that it was sitting on something like this you would be buying the shares with your ears pinned back! So far it has completed trenching which shows grades of 3-4 gpt near the surface, so it is still early days.

We continue to believe that SMI is one of the best silver exploration plays based on results to date and the experience of the geological and management team. The gold would be icing on the cake.

Cash to start flowing for West Wits

WWI has announced the first step in turning its 1.3 Moz of gold into cash with mining operations to commence in mid August. The Sol Plaatjies Project initially involves the mining of 180,000 tonnes of open pittable ore over the next 18 months for treatment in a third party mill. WWI has negotiated a minimum payment of 0.6 gpt, or approximately US\$25 per tonne treated. Total proceeds over 18 months at current gold prices will be about A\$6m. Usefully, WWI will not incur any capital or operating costs to achieve this income. (WWI has a 66.7% interest after BEE. Most if not all of the first \$6m comes back to WWI due to loans made to its partners).

The table below details how the cake will be cut. The contractor, Mintails Mining, expects that cash costs will be 1.1 gpt or about US\$42/t. After this is recovered, WWI will get the value of the next 0.6 gpt, worth around US\$25/t at present. Mintails then gets the next 0.4 gpt of recovered gold, and anything left is split 50:50 between WWI and Mintails. Thus there is upside on the \$6m depending upon the final recovered grade. The table below shows the split in gold between WWI and the contractor.

There are other open pit ore positions similar to this that could be mined at any time, either concurrently or sequentially, covering 2-3x the amount of gold. Thus there is potential for the \$6m of cash flow to increase to \$10-15m, which is approximate to WWI's market capitalisation.

This deal is the first and simplest step in the monetisation of the Witwatersrand assets. The big picture involves the mining of 100-120,000 oz p.a. from already developed underground positions. Economic studies have indicated a NPV of \$250-300m for the JORC resource of 1.3 Moz, with potential to lift this to 2 Moz. There are a number of companies around like Mintails that would be interested in buying these ounces at a price of \$50-70m (for WWI's 74% share), worth 10-15¢ a share. Thus there is significant value to be unlocked, and more if the gold price keeps rising.

Gold Sharing Arrangement - WWI and Mintails Mining			
Head grade	Estimated at 2.5 to 3 gpt		
Recovered Grade	Not less than 85%		
Tonnes	180,000 t open pit (initially)		
	Recovered Gold	Value US\$	Description
First Split			
Cost Recovery	1.1 gpt	\$42.00	Cost recovery
WWI Receipt	0.6 gpt	\$25.00	WWI profit
	1.7 gpt		
Second Split			
Mintails Profit	0.4 gpt		Mintails profit
Third Split			
WWI/Mintails	that above 2.1 gpt	??	50:50 split

Red River Resources sitting on another orebody

How many times do punters get excited about a drill hole going into an IP anomaly for the first time, and how often does a company make excuses for not delivering a one hole wonder? Sometimes it works and sometimes it doesn't, but when it does work, the shares can perform very well.

RVR released photographs of drill core a couple of days ago, from the first diamond drill hole into the Liontown East IP anomaly in Queensland. You can clearly see intense sphalerite mineralisation that promises to return a good grade when assays are received, some time next week. The shares have already run since the recent \$8.9m

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placement at 12.5¢, in response to the release, so it is difficult to say whether actual assays will add further positive movement to the share price.

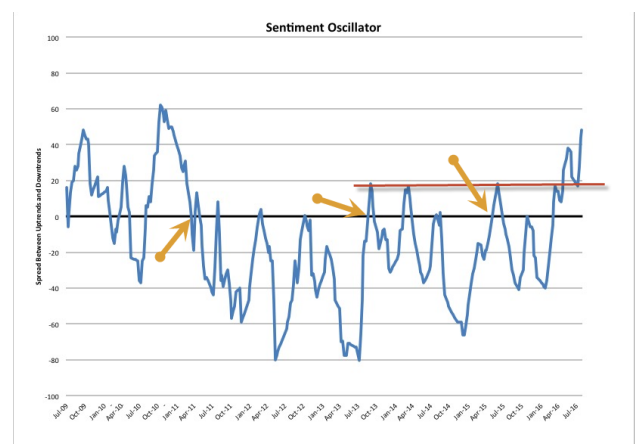
Fundamentally, the main point is that the promising exploration ground is adding to the resource endowment of what was already looking like one of the best zinc projects in Australia awaiting redevelopment. Being only 500m from the existing Liontown mineral resource of 2 Mt at 8.4% Zn is of great logistical benefit. Keep watching this one.

Introducing the FEC Sentiment Oscillator

Readers will have seen that at the bottom of each Commentary, before the individual chart comments, an item entitled the Sentiment Indicator. This is a simple calculation of the number of stocks under chart coverage that are in either uptrend or downtrends, expressed as a percentage. It tells you whether the market is hot or not.

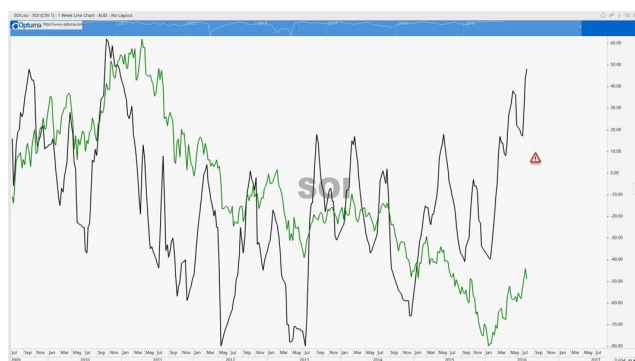
Now that it has been calculated for seven years it is time to take the calculations further. We have done so, coming up with the FEC Oscillator, which is a measure of the spread between the number of stocks in uptrend and downtrend. When the Oscillator is below the zero line on the x axis, there are more stocks in downtrend than in uptrend. Conversely, above the zero line the bull sentiment dominates.

Look at the peak in the Oscillator around October 2010. That is the best the sentiment has been in almost six years. That corresponds with a peak in the Metals and Mining Index. That Index then fell for about five and a half years during which the Oscillator confirms the bearish sentiment. There is a correlation between both charts when rallies tried, but failed to reverse the trend in October 2013, March 2014 and July 2015 (approximately). The final confirmation of a sustainable turnaround happened in February 2016,

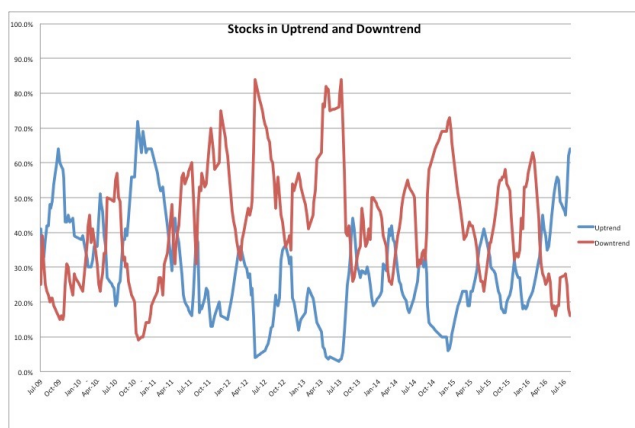


with the Oscillator punching through previous resistance levels.

For another perspective I have overlain the Oscillator on the Index chart itself as it shows some predictive capability of the Oscillator. It moves ahead of the Index.



The following chart shows the raw data from which the spread is calculated, for those who may be curious.



How to use the Sentiment Oscillator and the Sentiment Indicator

It is very easy to pat yourself on the back for being a good investor over the last six months if you have been in the market and made money. The reality is that the most important factor in this is that you were in the market at the right time. This is far more significant than the actual stocks you held. Sure, some performed better than others, but getting the overall market right in terms of swings in sentiment has been very important. The Oscillator and the Indicator numbers can be very helpful in this regard. They will tell you whether you are walking into the wind or whether it is at your back.

What does it tell you about where we are heading now? We can see that it has been a very unforgiving market for many years up until 2016 as almost all of that time was spent below the zero line on the Oscillator Chart. Simply speaking, if we can have a negative market for such a long

Sentiment Indicator: There was a slight softening of the sentiment this week with 62% (64%) of the stocks in uptrend and 17% (16%) in downtrend.

period of time, surely we will have a balancing time frame above the line, where we are now. There is logic in saying the wind will be at our back for 2-4 years. However, if you want to be more accurate in the shorter term trading environments you need to acknowledge that there will be periods where the Oscillator will turn down and stock prices can fall heavily. It is never a one way street.

We will publish the Oscillator on a regular basis from here so that you can see the chart as well as the numbers.

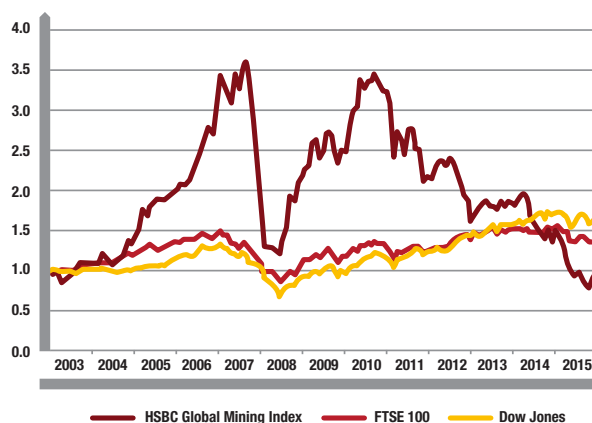
A few sobering statistics

Everyone knows that the mining bear market was tough but it always takes time for the post mortem to flow through. PWC publication, Mine 2016, provides some sobering statistics on the Top 40 (global) mining companies.

- impairments in 2015 totalled \$53b, being 32% of capex spent since 2010
- impairment for the last five years total nearly \$200bn
- market capitalisations of the Top 40 dropped 37% in 2015, but from December to April 2016, the market capitalisations recovered by 30% (it has since recovered even further)
- debt is at an all time high of 46%
- return on capital employed halved from 8% to 4%, even after impairments reduced capital employed by 24%
- there was a 17% reduction in operating costs, helped by a 47% reduction in oil prices
- EBITDA declined by 39%
- China accounted for almost 70% of world iron ore demand and 40% of copper demand

The report provides statistics and an analysis of company balances sheets that may interest some, but the chart of Global Indices below is most illuminating. This was the first time the Mining Index fell below the FTSE and the Dow in 15 years. As we had already witnessed, mining stocks were severely oversold. Aggressive buying of recent months has reversed this trend.

Global indices over the life of Mine (December 2003 – April 2016)



























































Source: Bloomberg

Detailed Chart Comments

NB. Only the bold comments have been updated. Comments in grey type are from previous weeks and will be less relevant.

Indices	Code	Trend Comment	
All Ordinaries	XAO	continuing to rise	
Metals and Mining	XMM	correction during the week	
Energy	XEJ	sideways	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	slumped to support line	gold
Aeon Metals	AML	new high	copper + cobalt
Alacer Gold	AQG	rising again	gold – production
Alkane Resources	ALK	testing downtrend after placement of shortfall	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Agua Resources	AGR	surge on positive study results	phosphate
Alicanto Minerals	AQI	new high	gold exploration
Altech Chemicals	ATC	strongly higher	industrial minerals
Anova Metals	AWV	new high	gold
Antipa Minerals	AZY	breached support line	gold
Archer Exploration	AXE	breached uptrend	graphite
Argent Minerals	ARD	pullback	polymetallic
Atlas Iron	AGO	down	iron ore
Atrum Coal	ATU	strong rise	coal
Aurelia Metals	AMI	new high	gold + base metals
Auroch Minerals	AOU	down on withdrawal from lithium deal	exploration
Aus Tin	ANW	stronger	tin, cobalt
Australian Bauxite	ABX	new uptrend confirmed	bauxite
Australian Vanadium	ABX	new uptrend confirmed	vanadium
Avanco Resources	AVB	turning down	copper
AWE	AWE	resistance at 90¢	oil and gas
Azure Minerals	AZS	trying to hold uptrend	silver
BHP	BHP	correcting	diversified
Base Resources	BSE	breached uptrend, but rallying	mineral sands
Beach Energy	BPT	long term downtrend in play	oil and gas
Beadell Resources	BDR	correcting after rise	gold
Berkeley Resources	BKY	surge to new high	uranium
Blackham Resources	BLK	correcting after rise	gold
Broken Hill Prospect.	BPL	short term down	minerals sands, cobalt
Buru Energy	BRU	sideways	oil
Canyon Resources	CAY	breached steep uptrend	bauxite
Cardinal Resources	CDV	new high	gold exploration
Carnegie Wave	CWE	downtrend	wave energy
Cassini Resources	CZI	chopping around	nickel/Cu expl.
Chalice Gold	CHN	new high	gold
Consolidated Zinc	CZL	downtrend breached then heavy pullback	zinc
Coventry Resources	CYY	breached uptrend	copper
Dacian Gold	DCN	new high	gold exploration
Danakiali	DNK	rising again	potash
Doray Minerals	DRM	new high	gold
Duketon Mining	DKM	holding uptrend	nickel
Eden Energy	EDE	rallying	carbon nanotubes in concrete
Energia Minerals	EMX	rising again	zinc
Evolution Mining	EVN	new high	gold
Excelsior Gold	EXG	new low	gold
First Australian	FAR	testing downtrend	oil/gas
First Graphite	FGR	pullback	graphite
Fortescue Metals	FMG	new high	iron ore
Galaxy Resources	GXY	breached uptrend	lithium

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Galilee Energy	GLL		still down	oil and gas, CBM
Gascoyne Resources	GCY		rising again	gold
General Mining	GMM		steep uptrend breached	lithium
Geopacific Res. Resources	GPR		breached downtrend	copper/gold exp.
Global Geoscience	GSC		steep uptrend	lithium
Gold Road	GOR		new high	gold exploration
Goldphyre	GPH		short term down	potash, gold
Graphex Mining	GPX		surge after IPO	graphite
Gryphon Minerals	GRY		new high on takeover bid	gold
Herron Resources	HRR		at highs	zinc
Highfield Resources	HFR		fallen to support line	potash
Highlands Pacific	HIG		sideways around lows	copper, nickel
Hillgrove Resources	HGO		new high	copper
Hot Chilli	HCH		new low	copper
Iluka Resources	ILU		correcting after rise	mineral sands
Image Resources	IMA		up, but heavy pullback	mineral sands
Independence	IGO		new high	gold, nickel
Intrepid Mines	IAU		sideways - 7¢ capital return proposed	copper
Karoo Gas	KAR		testing downtrend	gas
Kasbah Resources	KAS		continuing vertical rise	tin
Kibaran Resources	KNL		breached downtrend but then a pullback	graphite
Kin Mining	KIN		heavy correction	gold
King Island Scheel.	KIS		new low	tungsten
Kingsgate Consol.	KCN		suspension	gold
Kingsrose Mining	KRM		down	gold
Legend Mining	LEG		gentle downtrend	exploration
Lithium Australia	LIT		breached ST downtrend	lithium
Lucapa Diamond	LOM		back to support line	diamonds
Macphersons Res.	MRP		rising	silver
Manas Resources	MSR		rising	gold
Medusa Mining	MML		breached ST downtrend	gold
Metals of Africa	MTA		breached uptrend	zinc expl/graph.
MetalsX	MLX		new high	tin, gold
Metro Mining	MMI		uptrend	bauxite
Mincor Resources	MCR		new high	nickel
Mineral Deposits	MDL		spiked out of downtrend	mineral sands
MMJ PhytoTech	MMJ		testing downtrend	medical cannabis
Mustang Resources	MUS		new high	diamonds, rubies
MZI Resources	MZI		rising	mineral sands
Northern Minerals	NTU		testing downtrend	REE
Northern Star Res.	NST		heavy correction	gold
Oceana Gold	OGC		heavy correction	gold
Oklo Resources	OKU		correction	gold expl.
OreCorp	ORR		new high	gold development
Orinoco Gold	OGX		rising again	gold development
Orocobre	ORE		testing uptrend	lithium
Oz Minerals	OZL		new high	copper
Paladin Energy	PDN		new uptrend	uranium
Pacific American Coal	PAK		correcting after rise	coal, graphene
Pantoro	PNR		surge to new high	gold
Panoramic Res	PAN		rising	nickel
Paringa Resources	PNL		down	coal
Peel Mining	PEX		gentle uptrend	copper
Peninsula Energy	PEN		surge off lows	uranium
Perseus Mining	PRU		new high	gold
Pilbara Minerals	PLS		falling	lithium/tantalum
Potash West	PWN		meeting resistance line	potash
Red River Resources	RVR		back to recent high	zinc

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Regis Resources	RRL		new high	gold
Renaissance Min.	RNS		still at highs	gold
Resolute Mining	RSG		new high	gold
Reward Minerals	RWD		still down	potash
Rex Minerals	RXM		back to lows	copper
RIO	RIO		testing long term downtrend	diversified
RTG Mining	RTG		correcting	copper/gold
Rum Jungle	RUM		new low	quartz
Salt Lake Potash	SO4		uptrend recaptured	potash
Saracen Minerals	SAR		new high	gold
St Barbara	SBM		new high	gold
Sandfire Resources	SFR		stronger	copper
Santana Minerals	SMI		strong rise	silver
Santos	STO		continuing stronger	oil/gas
Sheffield Resources	SFX		new high	mineral sands
Silver City Minerals	SCI		down	base metals
Silver Lake Resources	SLR		new high	gold
Silver Mines	SVL		surge to new high	silver
Sino Gas & Energy	SEH		new uptrend	gas
Southern Gold	SAU		uptrend continuing	gold
Sundance Energy	SEA		testing downtrend	oil/gas
Syrah Resources	SYR		breached secondary uptrend	graphite
Talga Resources	TLG		surge higher, then a placement & pullback	graphene
Tanami Gold	TAM		new high	gold
Tiger Resources	TGS		new uptrend commenced	copper
TNG Resources	TNG		drifting lower	titanium, vanadium
Torian Resources	TNR		rising again	gold expl'n
Toro Energy	TOE		downtrend	uranium
Troy Resources	TRY		rising again	gold
Tyranna Resources	TYX		surge on drilling results	gold exploration
Vimy Resources	VMY		down	uranium
West African Resources	WAF		new high	gold
Westwits	WWI		new uptrend	gold exploration/development
Western Areas	WSA		heavy correction	nickel
White Rock	WRM		steep rise	silver
WPG Resources	WPG		ST down	gold
Wolf Minerals	WLF		continuing down	tungsten
Totals	62%	88	Uptrend	
	17%	25	Downtrend	
		143	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.

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Weightings of Sectors Represented in the Company Charts			
Sector	No. of Companies	Weighting	
Gold	35	24.5%	
Copper	14	9.8%	
Gold Exploration	11	7.7%	
Oil/Gas	9	6.3%	
Potash/Phosphate	7	4.9%	
Mineral Sands	7	4.9%	
Graphite	6	4.2%	
Zinc	6	4.2%	
Silver	6	4.2%	
Lithium	6	4.2%	
Nickel	5	3.5%	
Uranium	5	3.5%	
Coal	4	2.8%	
Tin	3	2.1%	
Bauxite	3	2.1%	
Iron Ore	2	1.4%	
Diamonds	2	1.4%	
Other	12		
Total	143		

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