

## Gold rally is helpful but sentiment has been softer

The biggest news of the week came on Friday night. The US jobs report proved disappointing with only 38,000 jobs being added last month, thereby causing the US stocks and the US\$ to fall. Correspondingly the gold price bounced to US\$1,244/oz. All bets are off on a rise in US interest rate soon. We have had a reversal of the thinking that had been dominating the markets in recent weeks.

This will prove a fillip to our mining market next week, especially the gold stocks, but the retreat in sentiment we saw last week might still dominate throughout the month of June. There is nothing to fear out there, but June is always a quiet month. Stocks will tick down, rather than up if sellers want to tidy their books before 30 June.

The zinc price and zinc stocks had a good week as the metal rose for seven days in succession, reportedly the longest rising streak in two years. The tight supply situation has been talked about for some time now due to closures of important mines. It seems that at long last the markets are responding. Two emerging zinc stocks we have mentioned previously may come back under the spotlight; Energia Minerals (EMX) and Red River Resources (RVR).

At the big end of town it was noticeable how soft BHP and RIO have been. This can probably be attributed to the weakening steel and iron ore prices. The Chinese steel price slumped by 20% in May, the worst month since 2008. Spot iron ore prices simultaneously fell by more than 30%. Oil stocks continued to improve across the boards along with the less volatile performance of oil prices. That would be helping BHP, but any gain there has to be balanced with pondering about how much the Brazilians tailings dam failure is going to cost.

RIO is being a bit more adventurous with its decision to commit to a PFS study on its Jadar Project in Serbia. This is focusing on a new mineral called jaradite which can supply lithium and borate in a new process. As usual, RIO spends copious amounts of money on studies that take a long time to complete. Even though the project could increase world supplies of lithium by 10%, it won't happen in a hurry.

### *Graphene commercialisation is becoming more public*

In keeping you in the loop on graphene, there have been some developments with an Italian-based company, Directa-Plus plc. You might remember this as the company I mentioned a year ago as the manufacturer of high performance bicycle tyres using three grams of graphene to achieve significant performance improvements. It listed a week ago on the AIM market in London at 75p, having raised £12.8m. Within a week the shares had doubled to £1.50, taking its market capitalisation to £66m.

According to the released documentation, Directa has capacity to produce up to 30 tpa of graphene. It can

produce a number of different graphene products on a modular basis from a chemical-free process. These include graphene from;

- thermal treatment of natural graphite (an expandable graphite route) for environmental work e.g. oil spills,
- a low viscosity waterbed product made via an exfoliation process for use in the energy sector, the construction sector and clothing,
- a highly concentrated water-based graphene paste free of surfactants and solvents for use in the textile market,
- a dry powder for use in products such as tyres, carbon fibre composites, thermoplastics and bioplastics and
- a granular form of graphene for use in master batches to ensure faster dispersion and distribution in polymers.

Notably, Directa-Plus has 12 granted patents and 9 pending patents. Its graphene is already being used in the production of bicycle tyres, carbon bicycle wheels, sportswear and environment cleanup tasks.

### *Implications for Aussie stocks - First Graphite Resources and Pacific American/Imagine IM*

When I met Directa-Plus at a trade show in Berlin last year, I recall that it used exfoliated graphite that it manufactured before converting it to graphene. That graphite came from Sri Lanka but was purchased from a German company that has been a long term producer of Sri Lankan graphite. Assuming my memory is correct, that has very positive implications for First Graphite Resources (FGR) as it moves into production from its own mines in Sri Lanka. It confirms the suitability of its graphite for the same advanced uses that Directa-Plus is working on. It has the right stuff!

There is no doubt that Imagine Intelligent Materials Pty Ltd and Pacific American Coal (PAK) will be following the Directa-Plus story with keen interest. The commercialisation of graphene will not belong to any one organisation in any one geographical location. There is a rising tide with an unknown number of companies working to achieve a position in this embryonic sector. Most of these are yet to reach the public domain but as they do, investors will become more cognisant of what is happening, and the more they will be alerted to the opportunities to benefit from this amazing new material. Also, don't forget the value of graphene as a battery input material. Over the next month I will be working on a PAK research note that will articulate the opportunities in some detail.

### *Placement by Broken Hill Prospecting (BPL)*

During the week FEC arranged a small, \$1m placement in BPL. Funds are to be deployed in the continuing advancement of the mineral sands project south of Broken Hill and, more topically, towards the Thackaringa cobalt/pyrite project, also near Broken Hill. While it is a speculative comment, it is not hard to see that cobalt is where lithium was a year ago. Everyone knew that lithium had a good future but what really sparked the market was the rise in the

lithium price towards the end of 2015. Combine this with a roadshow undertaken by Galaxy, which helped to educate investors, and the lithium stock really took off. The proposed merger of Galaxy and General Mining is dragging institutions into this space on the account of the size of the merged entity; > \$800m.

We know that there is probably going to be a 30% shortfall in supply of cobalt over the next 12 months due to nickel and copper mines closing. Because cobalt is found as a co-product with other commodities, cobalt supply is less responsive to the market price. The possibility is always there for a mighty spike in the price of cobalt from around US\$12/lb to a multiple of that figure. Back in 2008, the price was nudging US\$50/lb, so there is a recent precedent. You should be strapping on your seat belt now just in case the cobalt market really takes off.

*Note to Gold Card Clients of FEC: Thank you for your bids into the placement. I endeavour to allocate stock to Gold Card, particularly to those who are consistent supporters, but please remember that placements can fill very quickly. It is important to respond in a short time frame.*

### **Institutions coming down the ladder**

How often do institutions say they can't deal in companies less than \$100m in size? For brokers who read this Weekly, you are probably familiar with this reply when you try and get them to buy promising junior companies. Well, for the record, it doesn't always hold. I was pleasantly surprised by how many institutions were seeking stock in the the BPL placement even though it is capitalised at around \$12m. It just shows, when people smell money being made and when FOMO takes over, they will often abandon their rules.

### **Update on Lucapa**

A number of clients have been asking if anything is wrong with Lucapa as the share price has been the most stable we have ever seen. Well, as far I know, everything is going well. The market is still absorbing the dilution impact of the conversion of about \$15m worth of options

at the end of April, and that will probably mean a quiet market in the absence of stimulating news flow.

Taking a sensible look there are a number of matters that are ongoing that you should be aware of. For example;

- production will become more consistent with the end of the wet season.
- the Company is waiting on the renewal of the kimberlite exploration licence (as opposed to alluvials). It doesn't anticipate any issues, but it would be natural to be a little subdued until this comes through,
- there were delays in getting visas for the drilling crew chosen to undertake the drilling of the purported kimberlite pipe beneath Block 8. They have now been received and the guys are mobilising. I'd expect the rig to be turning later this month. Results from this program should give the final tick need to confirm the location of the first source pipe, and
- the Company will proceed with the doubling of capacity installing a treatment facility in the E46 area, probably in July.

At all times there is the positive risk that Lucapa will report more spectacular diamonds, though it would be a bit much to be waiting for the next 400 carat stone.

The bottom line is that Lucapa has never been in a stronger position. Cash levels exceed \$20m, the operations are cash flow positive, it is sitting on a kimberlite pipe that could be one of the richest ever found (if you assume this is where the alluvials have been coming from) and operations are expanding. The dry season that is now upon us provides the best operating conditions. It is finally in a position, with a less volatile share price, that institutions can be legitimately consider taking serious positions in the stock.

### **There might be a break in the Weekly**

Please be advised that the Weekly might not be written over the next few weeks due to travel commitments. If anything particularly noteworthy deserves comment I will try, but it is difficult to do when travelling in the remote NW of WA.

**Sentiment Indicator:** There was a definite shift in the sentiment this week, away from the bulls, though it is still a strongly positive market. There were 49% (55%) of the stocks in uptrend and 27% (19%) in downtrend.

## 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	experienced a pullback during the week	
Metals and Mining	XMM	approaching support line	
Energy	XEJ	sideways	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	improving	gold
Aeon Metals	AML	breaching uptrend	copper + cobalt
Alacer Gold	AQG	breached steep uptrend	gold – production
Alkane Resources	ALK	continuing down	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Aguia Resources	AGR	secondary downtrend	phosphate
Alicanto Minerals	AQI	testing uptrend	gold exploration

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Altech Chemicals	ATC	higher	industrial minerals
Anova Metals	AWV	new high	gold
Antipa Minerals	AZY	rising	gold
Archer Exploration	AXE	slump after placement	graphite
Argent Minerals	ARD	heavy fall	polymetallic
Atlas Iron	AGO	down	iron ore
Atrum Coal	ATU	surge higher, then pullback	coal
Aurelia Metals	AMI	new high	gold + base metals
Auroch Minerals	AOU	uptrend	exploration
Australian Bauxite	ABX	risen to resistance line	bauxite
Avanco Resources	AVB	turning down	copper
AWE	AWE	new high	oil and gas
BHP	BHP	falling back to support line	diversified
Base Resources	BSE	steep rise from lows	mineral sands
Beach Energy	BPT	breached secondary downtrend	oil and gas
Beadell Resources	BDR	breached uptrend	gold
Berkeley Resources	BKY	new high	uranium
Blackham Resources	BLK	steeply higher then a pullback	gold
Broken Hill Prospect.	BPL	new high	minerals sands, cobalt
Buru Energy	BRU	new low	oil
Canyon Resources	CAY	rising	bauxite
Cardinal Resources	CDV	stepped up	gold exploration
Carnegie Wave	CWE	breached downtrend	wave energy
Cassini Resources	CZI	sideways within uptrend	nickel/Cu expl.
Chalice Gold	CHN	moved to new high	gold
Consolidated Tin	CSD	strong rise then pullback	tin
Consolidated Zinc	CZL	secondary downtrend	zinc
Coventry Resources	CYY	heavy correction	copper
Dacian Gold	DCN	pullback	gold exploration
Danakiali	DNK	off its lows	potash
Doray Minerals	DRM	correcting lower	gold
Duketon Mining	DKM	pullback	nickel
Eden Energy	EDE	new high	carbon nanotubes in concrete
Energia Minerals	EMX	breached uptrend	zinc
Evolution Mining	EVN	correcting lower	gold
Excelsior Gold	EXG	new low	gold
First Australian	FAR	ST breached downtrend	oil/gas
First Graphite	FGR	pullback	graphite
Fortescue Metals	FMG	correcting	iron ore
Galaxy Resources	GXY	testing uptrend	lithium
Galilee Energy	GLL	still down	oil and gas, CBM
Gascoyne Resources	GCY	breached steepest uptrend, ST down	gold
General Mining	GMM	merger announced	lithium
Geopacific Res. Resources	GPR	testing uptrend	copper/gold exp.
Gold Road	GOR	uptrend	gold exploration
Goldphyre	GPH	higher	potash, gold
Gryphon Minerals	GRY	rolling over through steepest uptrend	gold
Herron Resources	HRR	new high	zinc
Highfield Resources	HFR	consolidating after breaching downtrend	potash
Highlands Pacific	HIG	testing downtrend	copper, nickel
Hillgrove Resources	HGO	new low	copper
Hot Chilli	HCH	new uptrend	copper
Iluka Resources	ILU	breached downtrend	mineral sands
Independence	IGO	continuing fall	gold, nickel
Intrepid Mines	IAU	sideways	copper
Karoo Gas	KAR	bounced	gas
Kasbah Resources	KAS	sideways	tin
KBL Mining	KBL	collapse back to lows	copper/gold/zinc
Kibaran Resources	KNL	breached downtrend	graphite
Kin Mining	KIN	strong rise	gold
King Island Scheel.	KIS	New low	tungsten
Kingsgate Consol.	KCN	improving	gold
Kingsrose Mining	KRM	sideways	gold

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Legend Mining	LEG	testing uptrend	exploration
Lithium Australia	LIT	heavy profit taking	lithium
Lucapa Diamond	LOM	in a wedge between uptrend and downtrend	diamonds
Macphersons Res.	MRP	sideways to lower	silver
Medusa Mining	MML	turned down	gold
Metals of Africa	MTA	testing downtrend	zinc expl/graph.
MetalsX	MLX	hitting resistance	tin, gold
Mincor Resources	MCR	new uptrend	nickel
MMJ PhytoTech	MMJ	new low	medical cannabis
Mustang Resources	MUS	testing downtrend	diamonds, rubies
MZI Resources	MZI	new low	mineral sands
Northern Minerals	NTU	testing downtrend	REE
Northern Star Res.	NST	new high	gold
Oceana Gold	OGC	pullback	gold
Oklo Resources	OKU	rising	gold expl.
OreCorp	ORR	new high	gold development
Orinoco Gold	OGX	rising again	gold development
Orocobre	ORE	through resistance and higher	lithium
Oz Minerals	OZL	breached uptrend	copper
Paladin Energy	PDN	new uptrend	uranium
Pacific American Coal	PAK	new high	coal, graphene
Pantoro	PNR	surge to new high	gold
Panoramic Res	PAN	risen strongly from lows, then pullback	nickel
Paringa Resources	PNL	secondary downtrend	coal
Peel Mining	PEX	breached downtrend	copper
Peninsula Energy	PEN	new low	uranium
Perseus Mining	PRU	new high	gold
Pilbara Minerals	PLS	new high	lithium/tantalum
Potash West	PWN	heavy fall	potash
Red River Resources	RVR	new high	zinc
Regal Resources	RER	strong rise	copper
Regis Resources	RRL	new high	gold
Renaissance Min.	RNS	testing uptrend	gold
Resolute Mining	RSG	new high	gold
Reward Minerals	RWD	breaching downtrend	potash
Rex Minerals	RXM	ST down	copper
RIO	RIO	back to downtrend	diversified
RTG Mining	RTG	secondary downtrend	copper/gold
Rum Jungle	RUM	new low	quartz
Salt Lake Potash	SO4	uptrend	potash
Saracen Minerals	SAR	new high	gold
St Barbara	SBM	new high	gold
Sandfire Resources	SFR	breached ST downtrend	copper
Santana Minerals	SMI	vertical rise then pullback	silver
Santos	STO	breached uptrend	oil/gas
Sheffield Resources	SFX	uptrend in play	mineral sands
Silver City Minerals	SCI	surge higher	base metals
Silver Lake Resources	SLR	secondary uptrend	gold
Sino Gas & Energy	SEH	new uptrend	gas
Southern Gold	SAU	testing uptrend	gold
Stavely Minerals	SVY	up from lows	copper exploration
Sunbird Energy	SNY	sideways through downtrend	gas/CBM
Sundance Energy	SEA	surge higher	oil/gas
Syrah Resources	SYR	strongly higher	graphite
Talga Resources	TLG	worst performing graphite stock	graphene
Tanami Gold	TAM	down	gold
Tiger Resources	TGS	new low	copper
TNG Resources	TGS	secondary uptrend	titanium, vanadium
Torian Resources	TNR	downtrend	gold expl'n
Toro Energy	TOE	downtrend	uranium
Troy Resources	TRY	ST down	gold
Tyranna Resources	TYX	heavy pullback	gold exploration
Vimy Resources	VMY	down	uranium

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West African Resources	WAF		new high	gold
Westwits	WWI		breached downtrend then a pullback	gold exploration/development
Western Areas	WSA		back to lows	nickel
WPG Resources	WPG		uptrend	gold
Wolf Minerals	WLF		testing downtrend	tungsten
Totals	49%	67	Uptrend	
	27%	37	Downtrend	
		137	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	34	24.8%
Copper	17	12.4%
Oil/Gas	10	7.3%
Gold Exploration	11	8.0%
Uranium	5	3.6%
Graphite	5	3.6%
Potash/Phosphate	7	5.1%
Zinc	6	4.4%
Nickel	5	3.6%
Coal	4	2.9%
Mineral Sands	5	3.6%
Iron Ore	2	1.5%
Tin	3	2.2%
Lithium	5	3.6%
Silver	3	2.2%
Diamonds	2	1.5%
Bauxite	2	1.5%
Other	11	
<b>Total</b>	<b>137</b>	

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