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FAR EAST CAPITAL

The Mining Investment Experts

Weekly Commentary

4 June 2022

Chart comments as at Friday's close

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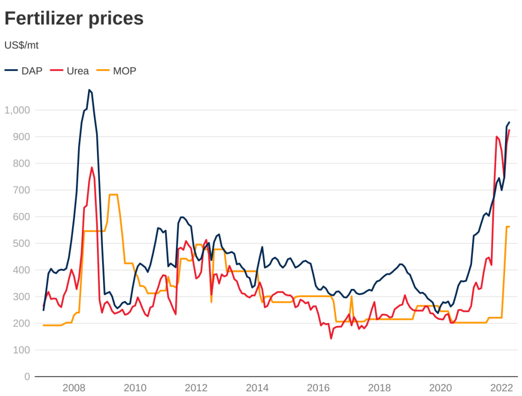
South Harz will benefit from soaring potash prices

We might have allowed ourselves to be enthused by the stronger market as our week closed, with some sort of recovery in equity markets starting. However, Friday in New York has pinched out any bud of hope of a continuation this coming week. We are still in a falling market for the majority of listed shares under coverage, but that observation runs contrary to both the Metals and Mining and Energy indices share price movements, and improving All Ordinaries index. The market can still be confusing to some.

There are still plenty of optimists out there who haven't recognised the emerging economic hurricane that Jamie Dimon, the CEO JP Morgan Chase, referred to on Friday. Those optimists will be the source of enthusiasm in rallies that are typical in a market like we have today. Remember that the technical definition of a rally is a recovery within a bear market, as opposed to just a move upwards, in any market. You should continue to be cautious.

Potash prices will help South Harz

We last mentioned South Harz (SHP) as it was changing its name from Davenport Resources (DAV) in May 2021, when the share price was 9.5¢ and the potash price was around US$200 pt. The landscape is dramatically different now with the Ukraine War being responsible for the spot price recently peaking above US$1,000 pt, while the South Harz share price is comfortably higher at 14.7¢. (*That more detailed note can be accessed on the FEC website*). The chart below shows how dramatically the muriate of potash price has moved in recent months. We saw a similar spike back in 2008, but without any lasting effect. This time around the high price may be more persistent, depending upon how long the Ukraine War drags on.



Note: DAP = diammonium phosphate. MOP = muriate of potash. Last observation is April 2022.
Source: Bloomberg; World Bank.

Irrespective of how long exports are constrained by the war, food security is going to be a constant theme for the foreseeable future. That means there will be greater focus on ASX-listed fertiliser stocks. We can quickly draw up a list of 11 companies, but there are probably more.

Where does South Harz fit in the mix?

South Harz has brownfields projects in Germany with resources of 5.3 Bt, so there is potential for a mine life exceeding 100 years. The resources were originally drilled during the communist era in East Germany and the core has not been available for check analysis, so the Company has been drilling two wide diameter, deep holes (750-800m) in the Ohmgebirge portion of its licences at a cost of Euro2.5-3m each. That sounds very expensive but consider that they have to be cased (like oil wells) and each hole takes 8-10 weeks to drill. The first hole has returned an assay of 14.4% K_2O over 11m, which is slightly higher than the average for the 41 historical holes previously drilled. Assays are pending on the second hole.

Once these holes are completed the Company will be able to declare 60% of the 261 Mt of sylvinite at Ohmgebirge as Indicated in an upgrade statement scheduled for July. That will enable a scoping study to be completed within three months, giving insight into whether the initial scale of mining should be 500,000 tpa, 1 Mtpa or something in between.

Access to the orebody will be via a deep shaft but there may be the opportunity to get earlier access through an historical, neighbouring shaft located only a matter of a few hundred meters from the orebody. Ore will probably be mined with the room and pillar method with 40% extracted in the advancing stage and 30% on the retreat and backfilling stage. Mining equipment would include conventional continuous cutters, front-end loaders and conveyors to the hoisting points. Thus there should be minimal technical risk.

The scoping study will give us more information on costs, but the capex is likely to be in the range of $500-$800m for a 1 Mtpa operation with localised benefits provided by infrastructure such as roads, railways and power already available on site. This cost would be usefully lower than the benchmark price $800-$1,000 pt of capex used by the potash industry for new projects.

Operating costs are anticipated to be in the bottom 50% of standard industry costs with a key advantage being minimal transport costs for sales into European market, compared with other companies around the globe.

What are the potential speed bumps?

While not technically a speed bump, the time frame that it takes to develop projects like these means that one needs to be patient. It could easily take five years until commissioning given the 18 month needed for a feasibility study and a three year construction period.

Being a brownfields mining site should assist in permitting, but there might be some legacy issues from past mining activities that invite greater scrutiny this time around. You can never be certain how long it will take bureacrats to process applications and permit a project, though there may be a greater sense of urgency due to what is happening on the European fighting front. The higher potash price will assist any financing plans, but how long will they stay high? Product is generally sold according to 12 month contracts so there doesn't seem to be any possibility of forward sales going out into the future that might lock in high prices. Nevertheless, the problems in the Ukraine region could last some time and this will keep potash prices high.

The Bottom Line

We are comfortable that South Harz has a number of potential, long life development opportunities with sound economic merit. The current market capitalisation of $77m is small given the capex is going to be closer to $660-$800m, but the strategic nature of the commodity, taking food security into account and the low technical risk, means that it would likely attract strong government support and user-friendly debt packages.

So, when would be the best time for investors to take a position? That depends upon how patient you are prepared to be. The share price should appreciate with increased certainty over time, based on fundamental analysis. Weakness in the current equity markets may provide good entry points for a company that may develop into a blue chip potash company.

Lithium meltdown is part of the speculation

The lithium meltdown we witnessed in the stock market last Wednesday is an example of how quickly the market can be spooked as we try and guess what China is up to. The specific event that pulled the rug out from under the lithium stocks last week was news from a Chinese-language publication. That suggested the Chinese battery company, BYD, was lining up the acquisition of six lithium mines in Africa to satisfy its demand for the next decade.

Lithium has been the best performing sector over the last year based on the 500% plus increase in lithium prices and the projected demand looking ahead. It is only natural to expect supply responses from many different angles. China is showing its hand, according to the press article. However, the pullback from globalisation will mean that the Western world will want its own sources as it seeks to bypass China.

With the number of new projects being promoted it is most unlikely that the recent trajectory of the lithium price can be maintained. That means the price will come down at some point, as will the share prices of all of the lithium stocks, until some sort of equilibrium is achieved in the markets. That is economics 101, but timing is the big question. Then it starts to become a question of which projects have the best economics as speculation is replaced by fundamental analysis. The slump last Wednesday was good evidence that there is still an abundance of hot money in the sector.

As a general comment, the world needs to expand production of a whole range of battery input materials if there is any chance of meeting carbon emission reduction targets. Share prices will fluctuate according to how much hot air is being blown into the thematic, at any point in time. It was ever thus.

Sunstone drilling shows Boda type potential

Sunstone Metals continues to deliver good intercepts from its Bramaderos Cu/Au exploration project (87.5% STM) in southern Ecuador. The latest holes, reported on Wednesday, included;

- 221m at 0.43 gpt Au and 0.22% Cu from surface
- 93.3m at 0.55 gpt Au and 0.08% Cu from surface
- 84m at 0.5 gpt Au and 0.16% Cu from surface
- 57m at 0.74 gpt Au and 0.23% Cu from surface

As we have seen with Los Cerros, projects like this one go through a stage where the company aims to get a handle on the dimensions in the first phase of drilling. This is followed by drilling to better understand the grade domains that will be necessary to understand how the orebody should be mined. Here, this latest round of drilling has extended the dimensions to 1.1 km x 400m. There is plenty of room for extensions at depth and at other locations on the licence.

Continued news flow should keep interest in the share price alive, though at some point there is always the risk that the early, impatient speculators will move on and look for the next play. We have seen that happen with Los Cerros. That company's share price has suffered in recent months, as have many other speculative company share prices. The reality is that these large porphyry style projects take years to drill and assess, meaning that prevailing stock market conditions can go through a number of cycles before we start to see production. The skill for traders is being able to take these changing conditions into account.

Some comparisons with Alkane's Boda Project

While Ecuador is very different to NSW and each reader will have their own view as to which is a better country in which to permit and operate a mine, it is nonetheless interesting to compare Bramaderos with Alkane's Boda project in central NSW.

Last Monday, Alkane released an initial Mineral Resource of 624 Mt at 0.51 gpt AuEq for 10.1 Moz AuEq (5.2 Mill oz gold and 900,000 tonnes of copper). This is contained in a 1,000m x 500m footprint. Bramaderos's footprint is 1.1 km x 400m, so they are roughly similar in strike and width dimensions. Does that mean that we are talking about similar size orebodies and resources? Quite possibly, but Alkane has drilled 71,400m at Boca while only 18,000m have been drilled at Bramaderos. That means there is much higher statistical confidence in Boda, but what of STM drilling another 30,000m ahead of an anticipated maiden ore resource statement at the end of 2022? We could realistically expect a resource of somewhere between 5 and 10 Moz AuEq.

What about the distribution of gold within the top 500m of the mineralisation, as that will affect the economics of any mine development? Bramaderos starts at surface with some higher grade zones, so mining will commence from a large open pit. Boda, on the other hand, has only patchy mineralisation in the first 250m of depth. It really needs to get to the vertical depth of 250m before its starts to hit the juicy ore. Maybe it will have a small open pit, but the real target is the underground ore that will be mined by the block caving method, comprising 353 Mt at 0.63 gpt AuEq for 7.1 Moz AuEq. Block cave mining can be successful but it is much more technically challenging than an open pit.

So, the economics of each project, and the technical risks, could be very different. As far as grade is concerned, STM is likely to have a gold equivalent grade of 0.5-0.6 gpt, which could be a tad higher than Boda.

When the Boda resource was announced, it added $50m to the market capitalisation of Alkane, which is now around $600m - but it does have the operating Tomingley gold mine as its primary asset. We could see a similar reaction for Sunstone when it releases its resource - market conditions permitting. At the moment the market capitalisation of Sunstone is about $130m and it has cash and liquid assets of about $30m. Half of this will be consumed in the drilling of the next 30,000m. A $50m addition to the market capitalisation would be very useful for shareholders.

So, this exercise of comparing the two exploration projects is interesting but it is not definitive. As far as Sunstone is concerned, shareholders should be encouraged that something of this size and grade has market appeal

Lindian placed $2m as share price runs higher

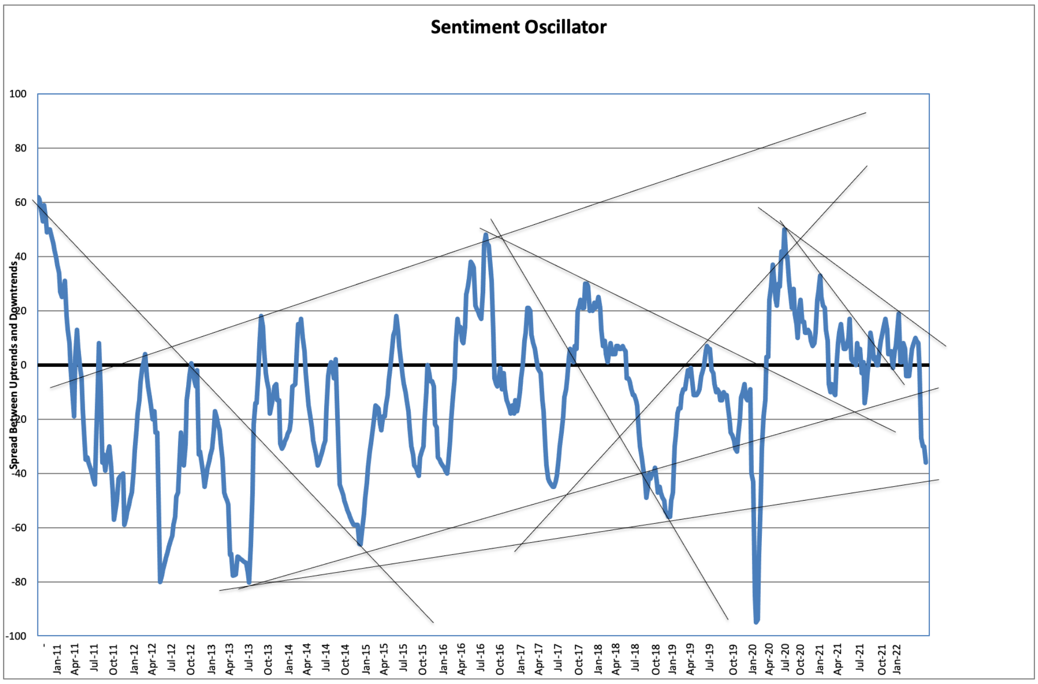
The continued enthusiasm for Lindian Resources last week prompted Lindian (LIN) to knock out a quick $2m placement at 10¢ a share, being 16% premium to the closing price on Tuesday. There was an attaching 1 for 2 unlisted option with a strike price of 12¢ and a three year life.

The Company did need to raise money as the cash balance on 31/3/22 was only $343,000. Nevertheless, it will need to raise substantially more if it is going to close the deal on the Kangankunde rare earths project in Malawi. The first payment of US$2.5m will be due in about 60 days, as a deposit. A second payment of US$7.5m will be payable six months after the deposit has been paid. Two payments of US$10m each will be payable 12 months after the deposit, and on the commencement of commercial production, or 48 months after the deposit.

With the company now capitalised at about $70m, there is sufficient size to enable subsequent raisings without blowing out the capital too much. If the project is as good as we are being told, the further raisings should be procedural.

The JORC resource is 107 Mt of REO at 4.24% REO using a 3.5% cut-off, from surface. Mineralisation is open at depth. The NdPr proportion is 18-19%. BRGM previously mined a 30 tonne sample and tested it through a simple crushing, grinding and gravity separation plant using spirals and shaking tables. A 60% concentrate was achieved with 60% recovery rates. Importantly, thorium oxide levels were very low at 11 ppm. While this is not as big a deposit as those that boast hundreds of millions on tonnes, the profit margin depends more on grade than mine life. Thus, this one looks very rich.

Disclosure: Interests associated with the author own shares in Lindian Resources and capital raising fees have been received .



Sentiment Oscillator: Sentiment fell further over the week. You might like to debate whether or not we are in a bear market, technically, but my charts are conclusive. The question is how far we have to go to get to the bottom. There were 19% (22%) of the charts in uptrend and 55% (52%) 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	improving
Metals and Mining	XMM	steep new uptrend forming
Energy	XEJ	at highs
Information Technology	XIJ	attempting a basing

Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
Alpha HPA	A4N	bounced off support line	HPA
Adriatic Resources	ADT	shallower downtrend	zinc, polymetallic
Alkane Resources	ALK	breached downtrend	gold
Alicanto Minerals	AQI	down	base metals, silver, gold
Altech Chemical	ATC	down	HPA, anodes
Anteotech	ADO	back to lows	silicon anodes, biotech
Alto Metals	AME	sideways	gold exploration
American Rare Earths (was BPL)	ARR	off its highs	rare earths
Antilles Gold	AAU	still down	gold
Arafura Resources	ARU	new high	rare earths
Ardea Resources	ARL	heavy retracement	nickel
Aurelia Metals	AMI	breached support line	gold + base metals
Australian Potash	APC	risen to hit downtrend line	potash
Australian Rare Earths	AR3	down	rare earths
Auteco Minerals	AUT	new low	gold exploration
Arizona Lithium	AZL	fallen back to support line	lithium
Azure Minerals	AZS	collapse	nickel exploration
BHP	BHP	still in a downtrend	diversified, iron ore
Beach Energy	BPT	new uptrend confirmed	oil and gas
Bellevue Gold	BGL	slump	gold exploration
Benz Mining	BNZ	back to previous lows	gold
Blue Star Helium	BNL	down	gas, helium
BMG Resources	BMG	shallower downtrend	gold exploration
Boab Metals	BML	back to downtrend	silver/lead
Breaker Resources	BRB	on support line	gold exploration
Buru Energy	BRU	falling	oil
Calidus Resources	CAI	testing support line	gold
Capricorn Metals	CMM	slump	gold
Caravel Minerals	CVV	new low	copper
Castile Resources	CST	still sideways	gold/copper/cobalt
Celsius Resources	CLA	falling	copper
Chalice Mining	CHN	down	nickel, copper, PGMs, gold exploration
Chesser Resources	CHZ	rallied off lows	gold exploration
Cobalt Blue	COB	correcting lower	cobalt

Cyprium Metals	CYM		surge out of downtrend	copper
Danakali	DNK		testing downtrend	potash
De Grey	DEG		falling	gold
E2 Metals	E2M		down	gold exploration
Ecograf	EGR		down	graphite
Element 25	E25		down	manganese
Emerald Resources	EMR		recovered to highs	gold
Empire Energy	EEG		down	gas
Euro Manganese	EMN		down	manganese
Evolution Mining	EVN		slump	gold
Firefinch	FFX		slump out of uptrend	gold
First Graphene	FGR		testing downtrend	graphene
Fortescue Metals	FMG		testing downtrend	iron ore
FYI Resources	FYI		down	HPA
Galena Mining	G1A		sideways	lead
Galilee Energy	GLL		hanging on uptrend line	oil and gas, CBM
Genesis Minerals	GMD		collapse back to downtrend	gold
Genmin	GEN		sideways	iron ore
Gold Road	GOR		down	gold
Great Boulder Resources	GBR		down	gold exploration
Hastings Technology Metals	HAS		on support line	rare earths
Hazer Group	HZR		heavy slump	hydrogen
Heavy Minerals	HVY		back to support line	garnet
Highfield Resources	HFR		breached support line	potash
Hillgrove Resources	HGO		long term uptrend	copper
Iluka Resources	ILU		breaching downtrend	mineral sands
Image Resources	IMA		new uptrend breached	mineral sands
ioneer (was Global Geoscience)	INR		down	lithium
Ionic Rare Earths	IXR		breached uptrend	rare earths
Jervois Mining	JVR		on support line	nickel/cobalt
Kingston Resources	KSN		down	gold
Krakatoa Resources	KTA		short term down	rare earths
Kingwest Resources	KWR		drifting lower	gold
Legend Mining	LEG		sideways	nickel exploration
Lepidico	LPD		breached uptrend	lithium
Lindian Resources	LIN		surged higher	bauxite
Lion One Metals	LLO		sideways	gold
Los Cerros	LCL		new low	gold exploration
Lotus Resources	LOT		testing long term uptrend	uranium
Lucapa Diamond	LOM		new low	diamonds
Lynas Corp.	LYC		through downtrend line	rare earths
Magnetic Resources	MAU		shallow downtrend	gold exploration
Mako Gold	MKG		sideways	gold exploration
Marmota	MEU		surge higher on REE news	gold exploration

Marvel Gold	MVL		breached uptrend	gold exploration
Matador Mining	MZZ		new low	gold exploration
Mayur Resources	MRL		slump to new low	renewables, cement
Meeka Gold	MEK		breached downtrend	gold
Megado Gold	MEG		back to trend line	rare earths, gold exploration
Meteoric Resources	MEI		sideways through downtrend line	gold exploration
MetalsX	MLX		heavy fall	tin, nickel
Metro Mining	MMI		holding support line	bauxite
Mincor Resources	MCR		testing downtrend	gold/nickel
Mithril Resources	MTH		down	gold/silver
Musgrave Minerals	MGV		testing downtrend	gold exploration
Neometals	NMT		breached uptrend	lithium
Northern Minerals	NTU		down	REE
Northern Star Res.	NST		breached downtrend	gold
Nova Minerals	NVA		down again	gold exploration
Oceana Gold	OGC		breached uptrend	gold
Oklo Resources	OKU		spiked through downtrend	gold expl.
Orecorp	ORR		down	gold development
Oz Minerals	OZL		rallying within a downtrend	copper
Pacific American	PAK		back to lows	coking coal
Pantoro	PNR		down	gold
Panoramic Res	PAN		testing uptrend	nickel
Peak Minerals	PUA		down	copper exploration
Peak Resources	PEK		down	rare earths
Peel Mining	PEX		sideways	copper
Peninsula Energy	PEN		breached uptrend	uranium
Poseidon Nickel	POS		drifting lower	nickel
Perseus Mining	PRU		near highs	gold
Provaris Energy	PV1		down - was Global Energy Ventures	hydrogen
PVW Resources	PVW		down heavily	rare earths
QMines	QML		downtrend	copper
Queensland Pacific Metals	QPM		testing downtrend	nickel/cobalt/HPA
Red River Resources	RVR		still down	zinc
Regis Resources	RRL		down	gold
Renergen	RLT		down	gas, helium
RIO	RIO		down	diversified, iron ore
Rumble Resources	RTR		good rally	gold exploration
S2 Resources	S2R		testing downtrend	gold exploration
St Barbara	SBM		down	gold
Sandfire Resources	SFR		down	copper
Santos	STO		uptrend	oil/gas
Saturn Metals	STN		sideways	gold exploration
Silex Systems	SLX		holding support	uranium enrichment technology
Silver Mines	SVL		down	silver

South Harz Potash	SHP		still holding long term uptrend	potash
Stanmore Coal	SMR		pullback	coal
Strandline Resources	STA		pullback	mineral sands
Sunstone Metals	STM		downtrend	exploration
Talga Resources	TLG		down	graphite
Technology Metals	TMT		down	vanadium
Tesoro Resources	TSO		down again	gold exploration
Theta Gold Mines	TGM		down	gold
Thor Mining	THR		**down**	gold exploration
Tietto Minerals	TIE		down	gold
Titan Minerals	TTM		down	gold
Turaco Gold	TCG		downtrend	gold exploration
Vanadium Resources	VR8		**testing 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		heavy fall	gold
Yandal Resources	YRL		**down**	gold exploration
Zenith Minerals	ZNC		off its highs	gold exploration
Zinc Mines of Ireland	ZMI		sideways	zinc
Totals	19%	27	Uptrend	
	55%	78	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.

Weightings of Sectors Represented in the Company Charts

Sector	No. of Companies	Weighting	
Gold	**31**	**21.7%**	
Gold Exploration	**23**	**16.1%**	
Nickel	**11**	**7.7%**	
Copper	**11**	**7.7%**	
Rare Earths	**11**	**7.7%**	
Oil/Gas	**7**	**4.9%**	
Iron Ore/Manganese	**6**	**4.2%**	
Lithium	**4**	**2.8%**	
Potash/Phosphate	**5**	**3.5%**	
Graphite/graphene	**4**	**2.8%**	
Uranium	**3**	**2.1%**	
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	**143**		

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