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FAR EAST CAPITAL
The Mining Investment Experts

Weekly Commentary

4 May 2019 Charts on Friday's Close Analyst : Warwick Grigor

Standline advancing minerals sands project pipeline

Once again we are seeing the strong US dollar mitigate interest in gold and metal prices. The gold price continues to be range bound as we await further developments on the trade war. This has flowed through to the attitude to mining stocks with quite a negative shift in sentiment over the week, led down by the gold stocks. Maybe we are also entering the traditionally weak end of financial year selling period.

On the flip side the Westfarmers bid for Kidman Resources caused a spike of interest in lithium companies, though not enough to see them breaking their downtrends. It is interesting to see how the wider market reacts to a bid like this. Yes, it means that the big end of town - or one company at least - has decided to enter the battery materials space. Is this the start of a trend, or a one company initiative? Perhaps the fact that the target has been pounced on means that the other companies in the sector were not sufficiently appetising. Why then should we go out and buy them?

Elsewhere, in non-mining related markets the overriding sentiment is mildly positive but without any urgency while we wait for the signal on which way to turn next. It is just part of the waxing and waning market we are experiencing as traders play with the highs of the Dow and the S&P without any great conviction.

Strandline - sensible potential in mineral sands

One of the more interesting companies that I saw at the PreDABA121 Conference in February was Strandline Resources (STA). What impressed me most was the combination of good projects and apparently competent technical management with plenty of experience in developing mining projects, in contrast to that of more opportunistic companies with projects that will never make the grade. This looks like a sensible company.

Strandline has risen from the ashes of Gunson Resources, a company that didn't quite get over the line with its Coburn zircon project a few years back. This time around it also has a project in Tanzania that will be easier to bring on stream due to its smaller scale and lower capex, with higher grade. Coburn itself is looking more attractive due to cost improvements on a number of fronts.

Interestingly, Strandline's management now includes two of the engineers who worked at Sedgeman Pty Ltd back in the Gunson days when that company was working on Coburn. Luke Graham (electrical engineer) is now Strandline's CEO and Peter Watson (chemical engineer) is an executive director.

This is a company that can be readily assessed on fundamentals given the amount of studies and feasibility work undertaken. While we often caution about taking studies for gospel, and we are ever conscious of commissioning risks, the experienced team here provides a higher level of confidence than usual.

Fungoni Project (100%), Tanzania

The first development will be the 100%-owned Fungoni Project in Tanzania, where it has already been granted its mining licence. It looks like Nedbank is prepared to provide US$26m of debt, being 67% of the estimated capex of US$35m. The due diligence is going through the final steps just now. Once the final term sheet has been received the next step will be to raise the equity component, being US$9m plus the mandatory working capital amount.

While raising money is seldom a walk in the park, the amount of money required here is not intimidating. Yes, at $45m the market capitalisation of Strandline is smaller than most institutions are prepared to come down to, but there are always exceptions to the rule. Having the London-based Tembo Capital fund on the register already, with 35.9% of the issued capital, will help to convince more generalist investing institutions that this is a company with merit.

Fungoni will be a dry mining exercise, extracting ore from a series of high grade shallow pits to maximum depths of 12m. The 2 Mtpa mining rate will exploit a JORC Proved and Probable Reserve of 12.3 Mt at 3.9% THM, from a resource of 21.7 Mt at 2.8% THM. This comprises 40.7% ilmenite, 4.3% rutile and 16.9% zircon. The wet concentrator plant will recover a 94% HM concentrate that will be finished in a mineral separator plant. The project is well located, only 25 km from the Dar es Salaam port.

Looking at the fundamentals of Fungoni, the statistic that stands out is the capex payback period of 18 months, based on estimated EBITDA of US$25m p.a. You could say that a limiting factor is the 6.5 year mine life, but there is potential for this to extend by 1-2 years. Nevertheless, this is a good starter project that will get the company match fit for the larger projects in the pipeline.

Take or pay contracts have been negotiated with Chinese buyers for 100% of the output, at premium prices due to the large particle sizes of ZrO_2, being 140 μm on average and better than 66% ZrO_2 concentrate content. Spot prices are currently 10-15% higher than the DFS assumptions. Zircon accounts for 55% of the project revenue.

A decision to mine now depends upon the confirmation of the debt funding, which will lead to an equity capital raising. In-country approvals are all in place except for the finalisation of the local compensation package which is expected to cost around US$4m, and take up to three months to conclude.

CoburnProject (100%), W.A.

Coburn is a significantly larger project - 10x larger - and it has the potential to add 5% to the world zircon supply. It is lower grade, longer life and it is located in Western Australia. As can be seen by its earlier failure to progress under the banner of Gunson, it is more challenging. What is different now?

Back in 2012/13, when the Korean company Posco had 49% of the project, it was keen on the product for nuclear fuel casings. However, the outlook for nuclear power changed dramatically with the Fukushima disaster. Also, the commodity prices started to fall away. The Koreans pulled out after $32m had been spent on Coburn, leaving the project stranded and exhausted. With the passage of time Luke Graham moved on from Sedgeman to take over as CEO of Strandline in its new format.

The spreadsheet on Coburn looks good with an average EBITDA of A$86m p.a. Capex is estimated at either $257m or $207m, depending upon whether the company elects to ship a wet concentrate or proceed to a minerals separation plant. Coburn would have a much longer mine life, in excess of 20 years based on reserves of 523 Mt at 1.1% HM, from a resource of 1.6 Bt at 1.2% HM. The HMC suite comprises 25% zircon, 47% ilmenite, 5% leucoxene, 6% rutile, 12% light HM and 5% free silica. Zircon would account for 60% of the project revenue.

A number of technological advances have been added to the process flow sheet, resulting in improved recoveries and better economics. Gas power is now proposed, securing costs of 17¢/kWh. Trucking costs for the 250 km trip to the Geraldton port have come down with the increase in size of trucks from 65 t to 100 t super triples.

There is still a good deal of work to be undertaken before the decision to mine can be made, but the recently released DFS was very positive.

Other Projects

Strandline has further project potential in Tanzania. The South Tajiri project has an identified JORC Indicated resource of 147 Mt at the good grade of 3.1% THM, with an exploration target of 147 Mt at 3.1% THM.

The Bagamoyo project has an exploration target of 78-156 Mt at 3-4.5% THM. A joint venture with RIO is about to test the Sudi project.

Valuations

The merit of the company can be demonstrated by the observation that respected analysts from a number of broking firms have already written research notes that value the company at more than twice the current share price. Chris Brown at Morgans and Cathy Moises at Patersons both have lengthy, distinguished careers. They like the story. Just last week, Hartleys released research suggesting the share price could double.

This is a company for investors who are prepared to take a view and give the company the time it needs to develop and commission real projects, rather than a hot trade in the short term. The shares might appreciate earlier if enough real investors are prepared to buy the stock now, but history tells us that on-market aggression will be constrained by the need for an equity capital raising in the near term. Once this has been done, and depending upon what type of investors that take it on, it then becomes a waiting game for another 12-18 months as project development and commissioning phases are undertaken.

The timing and the financing of the Coburn project introduces another level of uncertainty that could be problematic in some people's eyes due to the added level of complexity - two projects being advanced at the same time, but it could provide another opportunity to further institutionalise the stock. It depends upon whether the market wants to be optimistic or cautious. Given the strong breakout of the shares from a downtrend in recent weeks, maybe the market wants to be positive on this company.

Cardinal Resources - the next big gold producer

Cardinal is a $151m, emerging gold stock that we cover from time to time. It has offered good trading opportunities in the past, having come from lows of below 5¢ to a peak of 71¢ in September 2017. This coincided with the release of a 4.3 Moz gold resource at 1.1 gpt, at its Namdini gold project in Ghana. That reserve is now 5.1 Moz. The shares are currently drifting lower in a downtrend, closing at 39.5¢ on Friday.

It is normal for an exploration stock to shoot higher during the resource building phase, but eventually it gets to a point where incremental ounces are not as important as the issues involved in advancing towards project development. This is all about increasing certainty, or, as some people like to say, de-risking the project (as if that is ever possible). Even if the news flow continues to be good, there is a hiatus during which the risk preferring punters move on and the longer term investors begin to accumulate stock. Knowing that there will need to be a large equity raising at some point, usually in conjunction with a debt package, this minimises the need for these larger, longer term investors to be in a hurry. Hence, it is not surprising to see the share price drift.

Cardinal has already been earmarked as an important gold stock of the future. It has a good number of institutions on the register with 38% of the shares held by North Americans, 34% by Australians and 18% by UK and Europeans. More than eight leading brokers have the stock under coverage, internationally and domestically. Thus it can be called "mainstream".

The PFS includes numbers for a seriously large 9.5 Mtpa plant costing US$414m that will deliver 300,00 oz p.a. at a life of mine average cost of US$769/oz (AISC). Numbers are actually better than this for the 24 Mt, 900,000 oz starter pit. The low grade is not a problem when you have an average waste to ore ratio of 1.4:1 and 84% gold recovery. The orebody goes much lower, to depths of 400m, but the economics of going to such depths will be addressed at a later date.

There is nothing unusual about the process flow sheet. It includes a flotation concentrator with an output comprising 8% of the mass with 95% of the gold that is reground and sent to a CIL circuit.

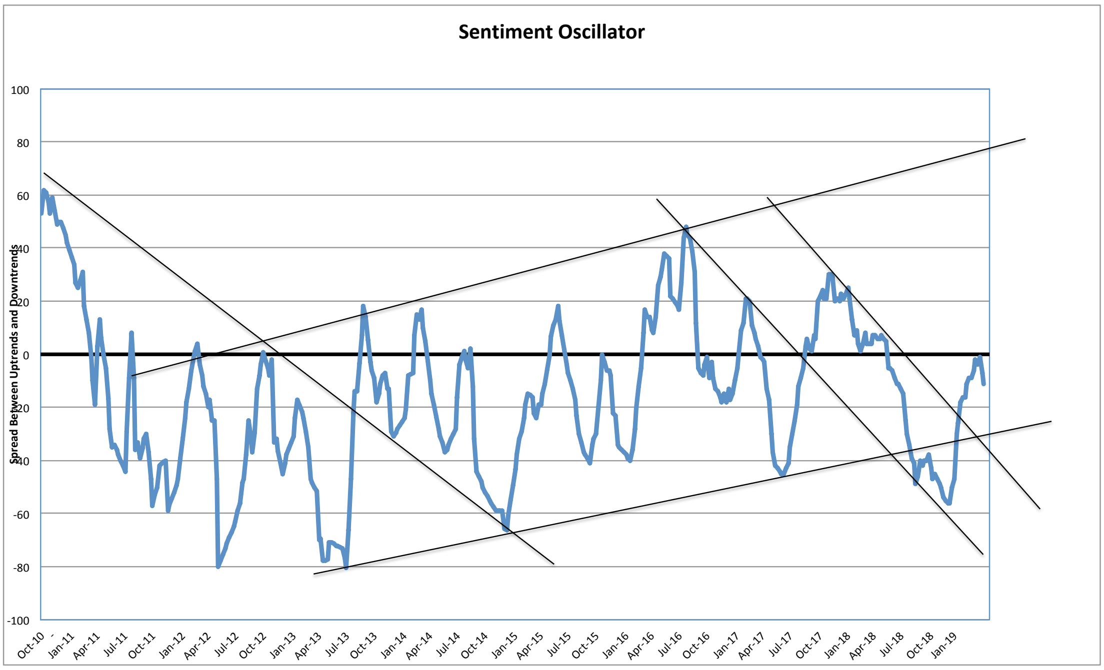
The next milestone will be the release of a final study in May/June this year which is a condition precedent to proceeding with the debt funding, and that will precede an equity funding arrangement. In the meantime the company has $29m in cash and expects to receive another $15m from the exercise of options. The findings of the study and the skill in delivering an attractive funding package will influence the demand for the shares in the market, but the outlook for the gold price is likely to dominate the direction of the shares. As for the development - it is a matter of when, not if. It looks like another gold success story of Australians in West Africa, in the making

Politician spending our money

There is one very important point that we should never lose sight of when we are deciding how to cast our vote in the Federal election, and that is the fact that the only money that the politicians have to spend, is our money. It is easy for them to be generous and behave like Santa Claus because it is not their money they are dishing out.

Whatever promises they offer, whatever free services they are thrusting upon us, they will always be taking that money from us first by way of taxes or other imposts. All they are doing is shuffling money as they seek to buy our votes, with our money.

Disclosure: I have a vested interest in the outlook for the Australian economy, the outlook for which is very dependent upon the fiscal capability of the Federal Government.



Sentiment Oscillator: Sentiment has weakened slightly. There were 24% (28%) of the charts in uptrend and 35% (35%) in downtrend on Friday's close. The share fall could take us back to to trend line before turning upwards again.

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		hovering around highs	
Metals and Mining	XMM		heavy correction testing uptrend	
Energy	XEJ		testing downtrend	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
Adriatic Resources	ADT		new high	zinc
Aeon Metals	AML		back in downtrend	copper + cobalt
Alacer Gold	AQG		correcting lower	gold – production
Alkane Resources	ALK		breached downtrend	gold, zirconia
Acacia Resources	AJC		Sideways at the bottom	coal
Alchemy Resources	ALY		breached downtrend	nickel, cobalt
Alicanto Minerals	AQI		building a base	gold exploration
Allegiance Coal	AHQ		back into uptrend	coal
Alliance Resources	AGS		new low - 1 for 2 issue at 9.5¢	gold exploration

Altech Chemicals	ATC		breaching uptrend	industrial minerals - synthetic sapphire
Apollo Consolidated	AOP		breached downtrend	gold exploration
Argent Minerals	ARD		breached downtrend, placement and pullback	silver
Aurelia Metals	AMI		heavy fall	gold + base metals
AusTin	ANW		new low after placement	tin, cobalt
Australian Bauxite	ABX		sideways	bauxite
Australian Potash	APC		pullback to support line	potash
Australian Mines	AUZ		hitting resistance	cobalt/nickel
Australian Vanadium	AVL		rallying, but hitting resistance	vanadium
Bounty Coal	B2Y		rallying	coal
BHP	BHP		off its highs	diversified, iron ore
Base Resources	BSE		risen to long term resistance	mineral sands
Bathurst Resources	BRL		sideways	coal
Battery Minerals	BAT		down	graphite
BBX Minerals	BBX		pullback	gold exploration
Beach Energy	BPT		breached uptrend	oil and gas
Bellevue Gold	BGL		new high	gold exploration
Berkeley Energia	BKY		in secondary downtrend	uranium
Blackstone Minerals	BSX		back to lows	gold, cobalt
Breaker Resources	BRB		testing uptrend	gold exploration
Broken Hill Prospecting	BPL		new low	minerals sands
Buru Energy	BRU		breaching downtrend	oil
Cardinal Resources	CDV		rallying	gold exploration
Cassini Resources	CZI		consolidating	nickel/Cu expl.
Celsius Resources	CLA		back to lows	copper/cobalt
Chalice Gold	CHN		sideways, but pushing higher	gold exploration
Cobalt Blue	COB		forming a base	cobalt
Comet Resources	CRL		back to lows	graphite
Dacian Gold	DCN		down	gold
Danakali	DNK		sideways	potash
Davenport Resources	DAV		down	potash
Eden Innovations	EDE		down	carbon nanotubes in concrete
Egan Street Resources	EGA		risen to meet resistance line	gold
Emerald Resource	EMR		uptrend	gold
Evolution Mining	EVN		down	gold
Exore Resources	ERX		breached uptrend	gold exploration
FAR	FAR		crunched down on dud oil well	oil/gas
First Graphene	FGR		risen to meet resistance line	graphene
Fortescue Metals	FMG		new high	iron ore
Galaxy Resources	GXY		another heavy fall	lithium
Galena Mining	G1A		steep rise	lead
Galilee Energy	GLL		surge out of downtrend	oil and gas, CBM
Gascoyne Resources	GCY		collapse on raising at 5¢, being 50% discount	gold
Gold Road	GOR		rising	gold

Golden Rim	GMR		new low	gold exploration
Graphex Mining	GPX		surge confirms new uptrend	graphite
Heron Resources	HRR		breaching downtrend	zinc
Highfield Resources	HFR		surge through resistance line confirms new up'd	potash
Hillgrove Resources	HGO		sideways	copper
Hipo Resources	HIP		rallied to meet resistance line	battery metals
Iluka Resources	ILU		long term downtrend	mineral sands
Image Resources	IMA		higher	mineral sands
Independence Group	IGO		testing uptrend	gold, nickel
ioneer (was Global Geoscience)	INR		testing downtrend	lithium
Jervois Mining	JVR		testing uptrend	nickel/cobalt
Jindalee Resources	JRL		still testing uptrend	lithium
Karoon Gas	KAR		breached downtrend	gas
Kasbah Resources	KAS		breached new uptrend	tin
Kibaran Resources	KNL		testing downtrend	graphite
Kin Mining	KIN		testing downtrend	gold
Legend Mining	LEG		new uptrend	nickel exploration
Lepidico	LPD		rising	lithium
Lithium Australia	LIT		continuing downtrend	lithium
Lucapa Diamond	LOM		continuing downtrend	diamonds
Lynas Corp.	LYC		spike on conditional bid	rare earths
Mako Gold	MKG		back to lows	gold exploration
Marmota	MEU		sideways	gold exploration
MetalsX	MLX		breached downtrend	tin, nickel
Metro Mining	MMI		testing downtrend	bauxite
Mincor Resources	MCR		breached resistance	gold
Musgrave Minerals	MGV		down	gold exploration
Myanmar Minerals	MYL		uptrend	zinc
Nelson Resources	NES		slump to new low	gold exploration
Neometals	NMT		testing downtrend	lithium
Northern Cobalt	N27		down again	cobalt
Northern Minerals	NTU		still under secondary downtrend	REE
Northern Star Res.	NST		in downtrend now	gold
NTM Gold	NTM		gentle downtrend	gold exploration
Oceana Gold	OGC		down	gold
Oklo Resources	OKU		bounce from lows	gold expl.
Orecorp	ORR		rising	gold development
Orocobre	ORE		testing downtrend	lithium
Oz Minerals	OZL		correcting lower	copper
Pacific American Coal	PAK		at lows	coal
Pantoro	PNR		weaker, bounced off long term support	gold
Panoramic Res	PAN		down	gold , nickel
Peak Resources	PEK		uptrend	rare earths
Peel Mining	PEX		still down	copper

Peninsula Energy	PEN		new uptrend	uranium
Pensana Metals	PM8		higher	rare earths
Perseus Mining	PRU		rising	gold
Pilbara Minerals	PLS		back in downtrend	lithium
PNX Metals	PNX		lower	gold, silver, zinc
Polarex	PXX		sideways	polymetallic exploration
Prodigy Gold	PRX		testing downtrend	gold exploration
Ramelius Resources	RMS		testing uptrend	gold production
Real Energy	RLE		short term down	gas
Red5	RED		sideways now	gold
Red River Resources	RVR		uptrend started	zinc
Regis Resources	RRL		fallen to support, and now testing it	gold
Resolute Mining	RSG		sideways through uptrend line	gold
RIO	RIO		off its highs	diversified, iron ore
Salt Lake Potash	SO4		re-entering downtrend	potash
Saracen Minerals	SAR		testing downtrend	gold
St Barbara	SBM		collapse	gold
Sandfire Resources	SFR		softer	copper
Santos	STO		into uptrend	oil/gas
Sheffield Resources	SFX		back to lows	mineral sands
St George Mining	SGQ		new, gentle uptrend forming	nickel
Sipa Resources	SRI		recovered, to sideways pattern	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		new high	coal
Strandline Resources	STA		new uptrend	mineral sands
Sundance Energy	SEA		testing downtrend	oil/gas
Syrah Resources	SYR		rallying	graphite
Talga Resources	TLG		steep rise	graphite
Technology Metals	TMT		short term down	vanadium
Tiger Realm	TIG		stronger	coal
Triton Minerals	TON		breached steepest downtrend	graphite
Troy Resources	TRY		sideways	gold
Vango Mining	VAN		breached downtrend	gold
Vector Resources	VEC		down	gold
Venturex	VXR		stronger	zinc
Vimy Resources	VMY		new uptrend forming	uranium
Volt Resources	VRC		sideways	graphite
West African Resources	WAF		breached downtrend	gold
Westwits	WWI		down	gold
Western Areas	WSA		ST uptrend breached	nickel
Whitebark Energy	WBE		sideways	oil and gas
Whitehaven Coal	WHC		breached ST downtrend, resistance at $5-$5.20	coal
Yandal Resources	YRL		sideways	gold exploration
Totals	24%	34	Uptrend	
	35%	48	Downtrend	

		139	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	22.3%	
Gold Exploration	18	12.9%	
Oil/Gas	9	6.5%	
Graphite	8	5.8%	
Nickel	8	5.8%	
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	4		
Total	139		

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