

4 November 2017

On Friday's Close

Analyst : Warwick Grigor

Time to focus on Lucapa Diamond Company again

Momentum picked up with the leading stocks during the week with RIO being a standout, notwithstanding the weaker iron ore price. What we saw was symptomatic of institutional money moving more aggressively into resources as this upward leg in the market gathers steam.

Cobalt stocks were very strong during the week, as this commodity is having its turn in the market. See the comment below on Northern Cobalt, a recent IPO.

Lucapa hotting up after a quite period?

Regular readers will know of my enthusiasm for Lucapa (LOM), having raised considerable funds for the company over recent years, and becoming one of the largest shareholders in the process. Notwithstanding Lucapa's production successes and reporting profits along the way, the share price is sitting well below the previous highs seen when the speculation on a rich new kimberlite pipe was running hot. The question has to be asked, *"Is the market more interested in the sizzle than the sausage?"*

It is well-known that companies that are capitalised at less than \$50m attract a different style of investor. They are generally risk preferring punters. When the capitalisations start to approach \$100m and more, these companies come onto the radar of larger, slower moving investors who judge stocks by different parameters. However, there can be a crossover period where the speculative phase has diminished, leading to punters moving on, but there hasn't been enough history of earnings (or other risk quantitative parameters) to encourage the longer term investors to come onto the register. The share price can go into a period of lethargy that can be frustrating for the true believers. Lucapa seems to have been bound in this time warp for some time now, delivering sub-optimal share price performance for most of 2017.

Having expressed these comments, it is pleasing to see that the focus on the drilling of kimberlite targets at Lulo is increasing. As profitable as the alluvials have been, it is the geological certainty offered by hard rock deposits that will secure longer term investors. The lead up to this milestone will offer the market another period of speculation while the geological questions are addressed. Thus, the sizzle comes back into the foreground.

There's an incredible richness of diamond targets

Back in June, LOM sent drill core off to the lab, from holes drilled on seven kimberlite targets in the wet season; L13, L14, L15, L18, L171, L242 and L252. These were mostly selected due to their strategic proximity to known alluvial deposits (though constrained access in the wet season had some influence on the location of the rigs). Fresh kimberlite NQ and PQ core was taken from holes at depths ranging from 35m to 85m. Sample sizes ranged from 5 kg to 20 kg for each hole.

Locations 13 and 15 drain into Mining Block 8, which has yielded US\$61m of diamond sales for the Lucapa operated Lulo mine. These are obviously very exciting positions.

Location 252 drains into Mining Block 6, where two large diamonds were recovered (a 133 carat compound diamond and a 120 carat Type IIa D coloured diamond), 2 km downstream from Block 8. Location 18 drains into Block 28, where a 227 carat Type IIa D colour diamond was also recovered, just upstream of Block 8.

Do yourself a favour and look at the map over the page to get an idea of the layout of the mining blocks and the drill locations. We are looking at a very promising 7.5 km stretch of river that has multiple kimberlite bodies feeding into it, with some extraordinary diamonds having been recovered. Our enthusiasm is driven by the observation that there are many chances of hitting a rich kimberlite. It is not a one target prospect. Analysis of the diamond populations support the belief that there will be a number of productive pipes. *Source: Lucapa ASX release, 30 May 2017*

There are only two laboratories in the world that can conduct the analysis of these samples - one in Canada and one in Capetown. The turnaround in Capetown has been frustratingly slow, but results must surely be coming in soon. Maybe we will get the desired answers from these holes soon, but then again there are no promises.

Subsequent to these samples going off to the lab, Lucapa has completed a Time Domain Electromagnetic (TDEM) survey to supplement data from earlier electromagnetic surveys, reporting the results last July. The combination of data from both methods has enabled a better definition of pre-existing targets, and 11 new targets were identified that had not been previously picked up with magnetic survey. Six of these are located along drainage systems feeding into Block 8. The extra information has led to a reclassification of existing kimberlite targets.

Last week the company reported another round of drilling, with a further eight targets tested. Kimberlite was intersected in four of these targets in close proximity to the rich Mining Block 8. Drilling will continue throughout the December quarter, with a 200m deep hole planned for L259, previously thought of as the most exciting target. The initial drilling here failed to get through the sedimentary horizon, stopping at 35m vertical depth. The 200m hole should provide a definitive test.

Lucapa is now well funded with US\$15m loan

One source of anxiety going back six months was the Company's inability to fund the development of the Mothae project, acquired in January, without a discounted equity issue. That led to market expectations of the shares being pregnant with an issue. Since then the company has received funds of \$9.2m from the exercise of options, capital loan repayments and distributions from Lulo.

A debt facility has been provided by Equigold, a company associated with Simon Lee. The principal is US\$15m for three years, at an interest rate of 13%. Equigold can convert the last 25% of the loan into shares at the lowest VWAP over the previous 15 days preceding the conversion

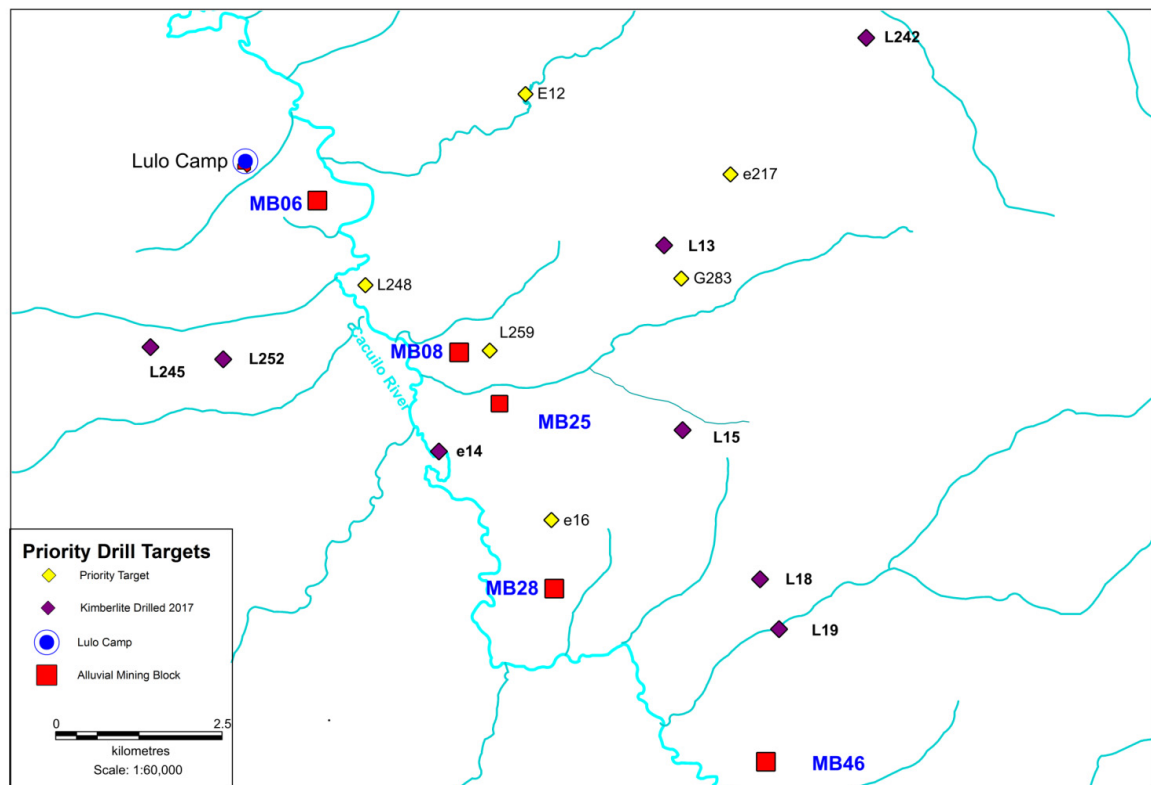


Figure 3: Priority kimberlite targets in proximity to key alluvial mining areas

request. This is a very favourable, mostly non-dilutive structured loan facility and the “overhang” of an impending equity issue has been removed. For those younger readers out there, Simon Lee was a very successful gold mining investor and corporate manager who came down from Malaysia to take the reigns at Great Victoria Gold in the 1980s, later moving on to Samantha Gold, where he worked closely with one of the doyens of the gold industry, Nick Giorgetta. He has one of the best reputations for competency and integrity of any mining entrepreneur I have met. Having Simon’s imprimatur is a key vote of confidence for Lucapa, its management and its growth plans.

Disclosure: FEC has received capital raising fees from Lucapa. Diamond Co in the past and associates of FEC own shares in Lucapa.

Northern Cobalt (N27) - a better grade than most

Northern Cobalt is another new cobalt company that came onto the bourse via an IPO in September, rather than by the back door. It raised \$4.2m to advance projects in NE Northern Territory, in the Gulf country.

What distinguishes it from many other cobalt hopefuls is the high grade, stated to be 0.17% Co. It is not an example of a porphyry or a laterite nickel deposit that carries cobalt credits. Rather, the cobalt is the main metal. The geology is unusual, with Co-Ni-Cu mineralisation focused in and above the main breccia zone. Mineralising fluids seem to have been introduced along fault zones, migrating laterally. Better grades are found closer to the fault zones. For some reason the copper values are lower than what geologist might have expected.

When CRA explored the ground in the 1990s, it was looking for large stratiform copper deposits. It drill approximately 200 holes at the time and is reputed to have calculated a tonnage of 4-5 Mt at 0.3% Co, but this cannot be quoted by N27 as it doesn’t comply with the modern JORC standards. The best the Company can declare is 500,000 tonnes at 0.17% Co, 0.09% Ni and 0.11% Cu. Still, the cobalt grade is good. On rare instances grades of up to 9.4% Co have been sampled with the better grades occurring around the fault zone.

About half of the orebody is in the oxidised zone, which extends to depths of 30-40m. The fresh sulphide mineral is siegenite $(\text{NiCo})_3\text{S}_4$, which can be recovered by froth flotation, but we don’t know anything about the metallurgy of the oxidised zone. As noted above in the commentary on Highlands Pacific, there is strong demand for intermediate cobalt/nickel products, coming from battery manufacturers. This could be very beneficial to N27.

Northern Cobalt has just finished drilling 57 RC holes at Stanton, to a depth of 100m. It only intended to drill 44 holes, but kept going when it found the mineralisation was continuing along strike. So far only 100m of the 1,000m anomaly has been drill tested. It now plans to drill 25 holes at Running Creek, a nearby anomaly. It will probably recalculate the resource upon receipt of all assays.

The Company is confident that it will get to 1 Mt at a better grade, and maybe it will eventually get to more than 5 Mt at 0.17%-0.2% Co. Time will tell.

So, it looks like an interesting, expanding story. The grade is good and there is already a JORC resource. There will be good news flow over the next couple of months with

drilling results coming in, and the cobalt stocks are running. What's not to like about this one?

Disclosure: FEC took up pre-IPO shares and still holds them. It has not purchased any more recently, but it is considering doing so (after this is published).

Wanting nickel, cobalt, copper? - consider Highlands

FEC recently picked up a few Highlands Pacific (HIG) shares in the market, following a buy signal on the charts. HIG is an existing nickel and cobalt producer through the 8.56% interest in the US\$2bn Ramu nickel project in PNG. It produces a mixed nickel-cobalt hydroxide precipitate product (rather than LME deliverable metal) that is increasingly being sought after by battery producers. Ramu is achieving much better payment terms compared to 3-4 years ago, with buyers paying 70-80% of cobalt value compared to 50% previously, and nickel terms are now in the high 70% numbers compared to low 70% previously. It seems to be a company in the right place at the right time with regards to the cobalt business because it is actually producing.

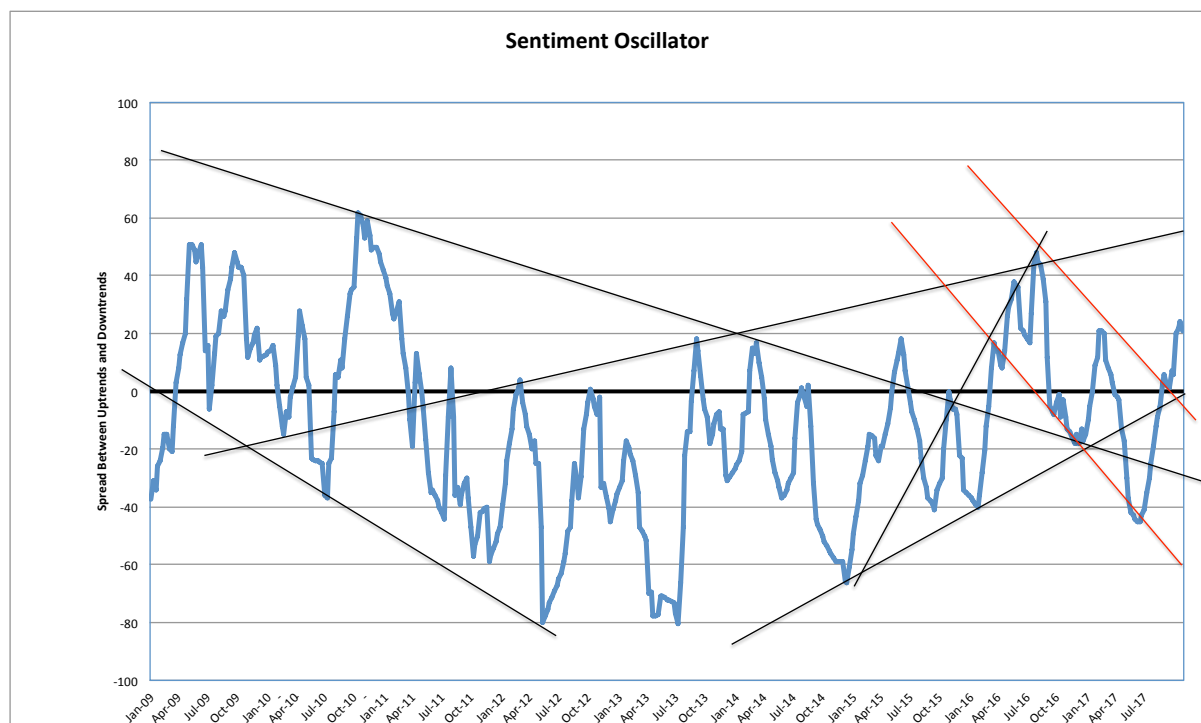
HIG is still carrying non-recourse debt levels of US\$128m, but with the better profitability this can now start to be paid

down. The process could be accelerated if the Company decided to undertake some debt refinancing and that might accelerate the increase in equity to 11.3%, upon repayment of debt to the joint venture partner. Further out there is even the possibility of buying another 9.25%, but it is too early to consider it now. Time is on its side with Ramu having a 35 year mine life, based on a 49 Mt proved and probably reserve at 1% Ni and 0.1% Co.

Highlands also has some very good copper assets, also in PNG, including 20% of Frieda River (Proved and Probable Reserves of 686 Mt Mt at 0.5% Cu and 0.28 gpt Au) and 49% of Star Mountains (intercept of 596m at 0.61% Cu and 0.85 gpt Au).

Highlands can best be described as an institutional grade speculative stock. With a market capitalisation of \$80m, it is selling at a much cheaper price than many other, more speculative situations. It has real substance in the assets. There is no risk that it will evaporate in a market downturn, while the leverage to an improvement in sentiment is exceptional.

Disclosure: FEC and associates own shares in Highlands Pacific.







Sentiment Indicator: Even though it was a strong market, the Sentiment Oscillator paused a little as a few more stocks found themselves in downtrends. There were 46% (45%) of the charts in uptrend and 24% (21%) 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.

Indices	Code	Trend Comment	
All Ordinaries	XAO	holding highs	
Metals and Mining	XMM	into a steeper uptrend now	
Energy	XEJ	new high	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	breached trend line	gold
Aeon Metals	AML	back to highs	copper + cobalt
Alacer Gold	AQG	testing uptrend	gold – production
Alkane Resources	ALK	down	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Agua Resources	AGR	back in downtrend	phosphate
Alicanto Minerals	AQI	testing downtrend	gold exploration
Allegiance Coal	AHQ	breached uptrend	coal
Alliance Resources	AGS	sideways	gold exploration
Alltech Chemicals	ATC	stronger	industrial minerals
Anova Metals	AWV	falling again	gold
Antipa Minerals	AZY	sideways	gold
Apollo Consolidated	AOP	new high	gold exploration
Archer Exploration	AXE	rising	magnesite, graphite
Argent Minerals	ARD	down	polymetallic
Artemis Resources	ARV	Uptrend	gold, nickel
Aspire Mining	AKM	new low	coal
Atrum Coal	ATU	heavy pullback	coal
Aurelia Metals	AMI	upside breakout	gold + base metals
Auroch Minerals	AOU	continuing higher	exploration
Aus Tin	ANW	sideways	tin, cobalt
Australian Bauxite	ABX	breached uptrend	bauxite
Australian Potash	APC	slump back into downtrend	potash
Australian Mines	AUZ	working around highs	cobalt/nickel
Australian Vanadium	AVL	sideways	vanadium
Avanco Resources	AVB	sideways	copper
AWE	AWE	breached downtrend	oil and gas
Azure Minerals	AZS	back in downtrend	silver
BHP	BHP	trying to hold trend line	diversified
Base Resources	BSE	rallying	mineral sands
Bathurst Resources	BRL	breached uptrend	coal
Battery Minerals	BAT	reached resistance line	graphite
BBX Minerals	BBX	suspended	gold
Beach Energy	BPT	rising	oil and gas
Beadell Resources	BDR	around lows again	gold
Berkeley Resources	BKY	sideways	uranium
Berkut Minerals	BMT	rising	cobalt
Blackham Resources	BLK	crunched down again	gold
Broken Hill Prospect.	BPL	new uptrend	minerals sands, cobalt
Buru Energy	BRU	breached downtrend	oil
Canyon Resources	CAY	correcting of recent high	bauxite
Cardinal Resources	CDV	testing uptrend	gold exploration
Cassini Resources	CZI	rising	nickel/Cu expl.
Chalice Gold	CHN	surge	gold
Cobalt One	CO1	back in downtrend	cobalt

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Cobalt Blue	COB		spiked higher	cobalt
Comet Resources	CRL		pushing higher	graphite/graphene
Consolidated Zinc	CZL		downtrend being tested	zinc
Corizon Mining	CZN		down	cobalt
Crusader Resources	CAS		softer	gold/iron ore
Dacian Gold	DCN		bounced off support line	gold exploration
Danakali	DNK		bounced off support line	potash
Doray Minerals	DRM		back in downtrend	gold
Draig Resources	DRG		new high	gold
Duketon Mining	DKM		new uptrend	nickel
Eden Innovations	EDE		new low	carbon nanotubes in concrete
Emerald Resource	EMR		sideways	gold
Energia Minerals	EMX		new uptrend breached	zinc
Evolution Mining	EVN		heavy pullback	gold
Excelsior Gold	EXG		new high	gold
Finders Resources	FND		stronger	copper
First Australian	FAR		testing uptrend	oil/gas
First Graphite	FGR		strong breach of downtrend	graphite
Fortescue Metals	FMG		testing longer term uptrend	iron ore
Galaxy Resources	GXY		steeply higher	lithium
Galilee Energy	GLL		surge out of downtrend	oil and gas, CBM
Gascoyne Resources	GCY		testing steeper downtrend	gold
Global Geoscience	GSC		new high	lithium
Gold Road	GOR		uptrend continuing	gold exploration
Graphex Mining	GPX		new uptrend	graphite
Heron Resources	HRR		drifting lower	zinc
Highfield Resources	HFR		breached downtrend	potash
Highlands Pacific	HIG		breached downtrend	copper, nickel
Hillgrove Resources	HGO		sideways	copper
Iluka Resources	ILU		surged higher	mineral sands
Image Resources	IMA		down	mineral sands
Independence	IGO		stronger	gold, nickel
Intrepid Mines	IAU		sideways	copper
Karoo Gas	KAR		breached support line	gas
Kibaran Resources	KNL		breached downtrend	graphite
Kin Mining	KIN		just holding uptrend	gold
Legend Mining	LEG		sideways	exploration
Lepidico	LPD		steep rise	lithium
Lithium Australia	LIT		rising again	lithium
Lucapa Diamond	LOM		testing downtrend	diamonds
Macphersons Res.	MRP		downtrend	silver
MetalsX	MLX		spiked higher	tin, nickel
Metro Mining	MMI		stronger	bauxite
Mincor Resources	MCR		new uptrend	nickel
Mineral Deposits	MDL		on support line	mineral sands
Mustang Resources	MUS		collapse	diamonds, rubies
Myanmar Minerals	MYL		rising on re-listing	zinc
MZI Resources	MZI		bounced off low	mineral sands
Northern Cobalt	N27		strong rise	cobalt
Northern Minerals	NTU		testing downtrend	REE
Northern Star Res.	NST		rising again	gold
NTM Gold	NTM		uptrend forming	gold
Oceana Gold	OGC		down after steep fall	gold
Oklo Resources	OKU		heavy correction	gold expl.

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OreCorp	ORR		risen off lows	gold development
Orinoco Gold	OGX		collapse on 1 for 2 issue	gold development
Orocobre	ORE		stronger	lithium
Oz Minerals	OZL		bounced off support line	copper
Pacific American Coal	PAK		good bounce to meet resistance line	coal, graphene
Pantoro	PNR		struggling to hold uptrend	gold
Panoramic Res	PAN		surge through downtrend	nickel
Peel Mining	PEX		another spike on big zinc hit	copper
Peninsula Energy	PEN		new uptrend breached	uranium
Perseus Mining	PRU		rising	gold
Pilbara Minerals	PLS		steeply higher	lithium/tantalum
PNX Metals	PNX		sideways	gold, silver, zinc
Red River Resources	RVR		holding longer term uptrend	zinc
Regis Resources	RRL		testing uptrend	gold
Resolute Mining	RSG		at lows again	gold
RIO	RIO		rising	diversified
Salt Lake Potash	SO4		breached steepest downtrend	potash
Saracen Minerals	SAR		holding long term uptrend	gold
St Barbara	SBM		sideways at highs	gold
Sandfire Resources	SFR		breaching downtrend	copper
Santana Minerals	SMI		new uptrend breached	silver
Santos	STO		new uptrend	oil/gas
Sheffield Resources	SFX		steep rise	mineral sands
Silver Lake Resources	SLR		heavy fall	gold
Silver Mines	SVL		down again	silver
Sino Gas & Energy	SEH		breached steepest downtrend	gas
Southern Gold	SAU		gentle LT uptrend	gold
Stanmore Coal	SMR		breaching long term support	coal
Sundance Energy	SEA		new uptrend started	oil/gas
Syrah Resources	SYR		rallying	graphite
Talga Resources	TLG		testing uptrend	graphene
Tanami Gold	TAM		sideways	gold
Tempo Australia	TPP		breached downtrend	mining services
Tiger Realm	TIG		spiked higher	coal
Torian Resources	TNR		new low	gold expl'n
Triton Minerals	TON		uptrend	graphite
Troy Resources	TRY		back in downtrend	gold
Tyranna Resources	TYX		testing downtrend	gold exploration
Vango Mining	VAN		down	gold
Vimy Resources	VMY		testing downtrend	uranium
West African Resources	WAF		correcting	gold
Westwits	WWI		rallying	gold exploration/development
Western Areas	WSA		new uptrend	nickel
White Rock Minerals	WRM		sideways	silver
Whitehaven Coal	WHC		gently higher	coal
WPG Resources	WPG		collapse	gold
Wolf Minerals	WLF		testing downtrend	tungsten
Totals	46%	66	Uptrend	
	24%	35	Downtrend	
		145	Total	

Guides to Chart Interpretations

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- 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.
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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	32	22.1%	
Gold Exploration	15	10.3%	
Copper	11	7.6%	
Coal	10	6.9%	
Oil/Gas	9	6.2%	
Mineral Sands	7	4.8%	
Graphite	8	5.5%	
Zinc	7	4.8%	
Silver	6	4.1%	
Lithium	6	4.1%	
Nickel	5	3.4%	
Potash/Phosphate	5	3.4%	
Cobalt	5	3.4%	
Uranium	3	2.1%	
Bauxite	3	2.1%	
Tin	2	1.4%	
Diamonds	2	1.4%	
Iron Ore	1	0.7%	
Other	8		
Total	145		

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