

## Game on! A great week for mining and oil stocks.

### *Buyers are back in force after a scary start to 2016*

The Sentiment Index (*see page 3*) tells it all. For the first time in a very long time there are more bulls in the market that we cover than bears. Over the past couple of years we have had periods where many stocks have breached downtrends but these were mostly false starts that were part of an extended base. This time it feels different. This time there is not much risk in saying we have turned the corner.

Those people who were investing for the longer term perspective in January, in spite of the panic, have done well. Those who have waited until the weight of numbers brought them into the market have unfortunately missed out on the best bargains, but at least now the volumes give the generalists the depth in the market to re-weight their portfolios.

The All Ords has breached resistance levels and is moving higher. If it can close above 5170 over the next week it will be clear sailing again. Both the Metals & Mining and the Energy indices are throwing off the negative sentiment and breaking into open territory. We are likely to have a strong market for least another month, and into April. Thereafter there will be consolidation and it will be back to using your brains to invest wisely but without the fear that has gripped us in recent years.

Notwithstanding the public debate on taxation and the lead up to a Federal election, with both activities being destabilising, the Australian economy continues to perform admirably given the headwinds affecting so many other economies around the world. The fall in the A\$ has provided the automatic adjustment we needed in 2015, though recent weeks have seen it pick up again to AUD/USD 0.7400 along with improving commodity prices. Life doesn't seem at all bad just now. The overall feel to the markets is generally good. It is not quite back to business as normal but things are happening in the mining equities space again. If you can't make money now you are in the wrong business.

### *Lucapa's 404 carat diamond fetches A\$22.5m ...*

Lucapa announced that it has sold the huge 404 carat diamond for A\$22.5m, equating to US\$39,580 per carat. It is often said that run-of-mine (ROM) diamond production pays for the bills in alluvial mines, and the special stones provide the profit margin. In a mine like Lulo, where the ROM production includes such a high proportion of special stones, we have the basis for an exceptionally profitable mine. When I first ran the earnings scenarios early last year I calculated that the mine could generate \$20-40m p.a. operating cash margin to Lucapa at 40,000 BCM/month (a rate it expects to hit in mid 2016). Given recent results these estimates are looking more believable.

### *... taking total project sales to A\$51m*

LOM also announced last week that total sales of diamonds for Lulo had reached A\$51m from 12,125 carats. The March Quarter alone has accounted for A\$32m. Who said you can't make money out of alluvial diamonds in Angola? This is an excellent result to date, with much more to come.

### *Anova Metals - imminent gold producer in Nevada*

Over the past week we closed a placement for Anova Metals (AWV), being \$1.5m at 4.5¢ a share. While that is a small amount, it is because it only needs a supplement to its working capital to get it into strong cash flow. The ability to truck the ore 40 miles to a hungry mill has meant that the usual capex hurdle isn't a problem. Selective mining of a total resource of 1 Moz will see a mine life of six years at a rate of 40-45,000 oz p.a. on the initial assessment. At current gold prices we have calculated a NPV of 13¢ a share on the initial three year life, increasing to 23¢ on a full six year operation. Given the share price is around 6¢ now, there is plenty of upside on a start-up in mid 2016. You would expect that the owners of the mill will want to take Anova out once they realise the strong cashflows that they will be generating through their treatment plant. (*We have attached a simple two page note on AWV, updated for the recent placement.*)

This is a good example of fundamentally sound opportunities in the gold sector that we should be focussing on with the gold price outlook improving. Another one that we have mentioned previously is West Wits (WWI), operating on the Witwatersrand. We see upside of 5x on the ability to sell its gold assets (1.2 mill. oz and rising), based on the simple rule of thumb that you could sell gold in the ground at a price of 3% of the in situ value. Having five operating gold plants within trucking distance means there will be plenty of interested buyers. (*an independent analyst will soon release a research report on West Wits, under the FEC banner.*)

Bear in mind though that these are companies you buy and hold for the corporate outcome rather than viewing them as trading stocks. They are for fundamental investors looking for asset plays rather than hot traders.

### *Red River - a de-risked, fast track zinc stock*

I recently drove three hours SW of Townsville to inspect the Thalanga zinc project. Some of you will remember the Thalanga plant when it was operated by Kagara Zinc Ltd (mostly for copper) before that company came tumbling down for various reasons. As happens with mining projects over time, ownership has moved on to another company. In October 2014, Red River (RVR) completed the purchase of Thalanga, paying \$6.5m in cash.

Since the acquisition RVR has been working towards a recommissioning of Thalanga, consolidating its ground

position, recalculating resources, preparing mine plans and testing for extended ore positions. It has estimated a 5 year mine life on current resources and an estimated C1 operating cost of only US\$0.18/lb Zn Eq, after useful credits from copper, gold, silver and lead. The C3 cost is estimated to be US\$0.73 Zn Eq. This positions it on the crossover point between the first and second quartiles on the global cost curve.

I have previously said that brownfield gold projects are traps for the uninitiated as companies usually end up paying twice the estimated capex and experiencing much higher operating costs. They assume that ounces in resources can be converted to mining reserves by waving a magic wand. It doesn't happen this way. Should I have a similar conservative view of this zinc project? There are reasons for being more positive here given the nature of the underground orebodies and recent drilling.

The treatment plant has been on care and maintenance for a number of years. Whilst on site the manager turned on the primary crusher, ball mill and other pieces of equipment to show that they still work, notwithstanding the rusty appearance. There is a great deal of work involved in recommissioning and there will always be a risk of equipment failure to begin with, so it is difficult to accurately predict exactly how much this will cost and how long it will take to get operations to a steady state, but there shouldn't be any concern about whether the treatment circuit will be fit for purpose. Much still depends upon the quality and ability of the personnel. The operations manager has had extensive industry experience at much more difficult plants, including Lihir, so RVR seems well covered on this aspect.

While talking about personnel it is noteworthy that almost the entire team - directors and senior management - are real operators as opposed to promoters and entrepreneurs. They are serious mining people with extensive experience. That adds to confidence that they know what they are doing, and expectations that they will do their jobs competently. Another tick.

One of the more exciting aspects of the project is the exploration upside. RVR has secured ownership over the entire length of the Mt Windsor Belt, being the first company to do so. That position, combined with advanced IP technology that can now see through previously obstructive surface cover that extends to depths of 100m, means that there is an enormous number of targets to be tested. It's likely that the initial five year mine life is just the start. Red River describes this IP technology as a "game changer"

The bottom line that RVR now finds itself at is a project that will cost \$18m to recommission at an initial treatment rate of 300-350,000 tpa. Add another \$14m for anticipated working capital and for a tad over \$30m it will have a project that would cost \$100-150m if it was a greenfield development. The obviation of that higher capex figure is a major benefit, as is the estimated short time frame to production of six months after a decision to proceed.

The zinc market has one of the more interesting supply and demand equations with Century Zinc and other sizeable mines closing down. There is potential for a spike in the zinc price over the next 1-2 years. RVR is well positioned to rapidly move in such a scenario. Yes, it

needs to raise money to effect its plans but the total sum required is not intimidating.

In its latest ASX release, RVR has announced drill results for the up-dip extension of the Far West orebody that demonstrate the high grade tenor of the mineralisation. TH675 intersected 6.6m at 2.9% Cu, 1% Pb, 5.8% Zn, 0.3 gpt Au and 53 gpt Ag (17.7% Zn Eq), from 292m down hole (true width). It is certainly one of the better looking zinc opportunities in the market.

### *Dog eat dog in the world of lawyers*

Somehow I can't avoid a feeling of schadenfreude when I read about the woes of Slater and Gordon. Here is a legal practice, that has been the source of great pain to many businesses with its class actions, about to suffer the same blow torch to its belly. What goes around comes around.

I have serious concerns about the ethics of having an ASX listed law firm. There is a massive conflict of interest between the shareholders of such a firm, who simply want to maximise their profits, and the fiduciary duty owed to clients whom the firm purports to represent. On the one hand the shareholders want the maximum fees to be charged, and on the other hand the clients want value for money but they are never in control of the process. Anyone who has been involved in litigation will know that lawyers are more interested in the process, and dragging it out as long as possible because they charge by the hour, than the end result. The lack of productivity and time wasting is always of concern, but throw into the mix the escalating charge-out rates required to achieve growing profits and you have a formula for double screwing of clients.

Over time various governments of the day have overseen reviews of most of our sectors at some point in the quest for efficiency. However, the legal profession is a glaring omission. Why is that? Is it too powerful to be messed with? Is it above the law? Whatever the reason, it needs to be looked at seriously to determine if it is serving our society efficiently and ethically.

We have added Cardinal Resources (CDV) to our chart coverage. This company has an advanced gold exploration project in NE Ghana and it is blessed with a strong board. It ticks all the boxes. Red River (RVR) has also been added following a site visit to the Thalanga zinc project in Queensland.

**Sentiment Indicator:** For the first time in a very long time the bulls have burst out in front. There were 39% (33%) of the stocks in uptrend and 31% (38%) 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	hitting final resistance	
Metals and Mining	XMM	up, but about to meet LT resistance line	
Energy	XEJ	breaching final resistance	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	steep uptrend	gold
Aeon Metals	AML	vertical rise	copper + cobalt
Alacer Gold	AQG	breached downtrend	gold – production
Alkane Resources	ALK	continuing down	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
African Energy	AFR	still in downtrend	coal
Agua Resources	AGR	downtrend	phosphate
Altech Chemicals	ATC	breached downtrend	industrial minerals
Anova Metals	AWV	uptrend	gold
Antipa Minerals	AZY	breached downtrend	gold
Archer Exploration	AXE	drifting	graphite
Argent Minerals	ARD	testing downtrend	polymetallic
Atlas Iron	AGO	new low	iron ore
Atrum Coal	ATU	breached downtrend	coal
Australian Bauxite	ABX	New low	bauxite
Avanco Resources	AVB	ST uptrend	copper
AWE	AWE	ST uptrend	oil and gas
BHP	BHP	breached short term uptrend	diversified
Base Resources	BSE	steep rise from lows	mineral sands
Beach Energy	BPT	testing downtrend	oil and gas
Beadell Resources	BDR	strong rise	gold
Berkeley Resources	BKY	correcting downwards	uranium
Blackham Resources	BLK	steeply higher	gold
Broken Hill Prospect.	BPL	breached downtrend	minerals sands
Buru Energy	BRU	sideways at lows	oil
Canyon Resources	CAY	breaching downtrend	bauxite
Cardinal Resources	CDV	new uptrend	gold exploration
Carnegie Wave	CWE	down	wave energy
Cassini Resources	CZI	testing downtrend	nickel/Cu expl.
Chalice Gold	CHN	rising	gold
Consolidated Tin	CSD	heavy slump	tin
Consolidated Zinc	CZL	breached downtrend	zinc
Coventary Resources	CYY	breached downtrend	copper
Cudeco	CDU	Collapse on relisting	copper
Dacian Gold	DCN	new high	gold exploration
Danakiali	DNK	testing downtrend	potash
Doray Minerals	DRM	new high	gold
Duketon Mining	DKM	short term uptrend	nickel
Eden Energy	EDE	strong breakout upside	carbon nanotubes in concrete
Energia Minerals	EMX	strong breach of downtrend	zinc
Energy Resources	ERA	breached downtrend	uranium
Evolution Mining	EVN	new high	gold
Excelsior Gold	EXG	sideways through uptrend line	gold
First Australian	FAR	breached downtrend	oil/gas
First Graphite	FGR	sideways to down	graphite
Fortescue Metals	FMG	short term uptrend	iron ore
Galaxy Resources	GXY	new high	lithium
Galilee Energy	GXY	down	oil and gas, CBM
Gascoyne Resources	GCY	uptrend	gold

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General Mining	GMM		new high	lithium
Geopacific Res. Resources	GPR		Rise halted by long term downtrend	copper/gold exp.
Gold Road	GOR		uptrend	gold exploration
Goldphyre	GPH		holding flatter uptrend now	potash
Gryphon Minerals	GRY		higher	gold
Herron Resources	HRR		down	zinc
Highfield Resources	HFR		less steep uptrend	potash
Highlands Pacific	HIG		New low	copper, nickel
Hillgrove Resources	HGO		new low	copper
Hot Chili	HCH		new low	copper
Iluka Resources	ILU		uptrend	mineral sands
Independence	IGO		steep rise	gold, nickel
Intrepid Mines	IAU		sideways	copper
IMX Resources	IXR		down	graphite
Karoo Gas	KAR		at lows	gas
Kasbah Resources	KAS		breaching downtrend	tin
KBL Mining	KBL		collapse back to lows	copper/gold/zinc
Kibaran Resources	KNL		breaching support	graphite
Kin Mining	KIN		at lows	gold
King Island Scheel.	KIS		New low	tungsten
Kingsgate Consol.	KCN		surge though downtrend	gold
Kingsrose Mining	KRM		kicked up through downtrend line	gold
Legend Mining	LEG		testing downtrend	exploration
Lithium Australia	LIT		correcting lower	lithium
Lucapa Diamond	LOM		steeply higher on 404 carat diamond	diamonds
Macphersons Res.	MRP		uptrend	silver
Medusa Mining	MML		uptrend	gold
Metals of Africa	MTA		surged higher, but at resistance line	zinc expl/graph.
MetalsX	MLX		breached downtrend	tin, gold
Mincor Resources	MCR		new low	nickel
MMJ PhytoTech	MMJ		uptrend in play	medical cannabis
Mount Gibson	MGX		sideways	iron ore
Mustang Resources	MUS		heavy fall	diamonds, rubies
MZI Resources	MZI		new low	mineral sands
Newfield Resources	NWF		collapse on tiny volume	diamonds
Northern Minerals	NTU		new low	REE
Northern Star Res.	NST		new high	gold
Oceana Gold	OGC		new high	gold
Oklo Resources	OKU		breached downtrend	gold expl.
OM Holdings	OMH		New low	manganese
Orecorp	ORR		back to high	gold development
Orinoco Gold	OGX		softer during rights issue	gold development
Orocobre	ORE		correcting downwards	lithium
Oz Minerals	OZL		steeply higher	copper
Paladin Energy	PDN		still in LT downtrend	uranium
Pacific American Coal	PAK		strong rise	coal
Pantorro	PNR		rising	gold
Panoramic Res	PAN		hitting resistance	nickel
Panterra Gold	PGI		new uptrend	gold production
Paringa Resources	PNL		breaching downtrend	coal
Peel Mining	PEX		down	copper
Peninsula Energy	PEN		down	uranium
Perseus Mining	PRU		rising again	gold
Pilbara Minerals	PLS		ST downtrend, being tested	lithium/tantalum
Platina Resources	PGM		rising off lows	PGMs, gold
Potash West	PWN		steeply higher	potash
Red River Resources	RVR		rising	zinc
Regal Resources	RER		sideways to higher	copper
Regis Resources	RRL		new high	gold
Renaissance Min.	RNS		testing downtrend	gold
Resolute Mining	RSG		steeply higher	gold
Reward Minerals	RWD		down	potash
Rex Minerals	RXM		surge through downtrend	copper

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RIO	RIO		steep ST uptrend	diversified
RTG Mining	RTG		breached downtrend	copper/gold
Rum Jungle	RUM		breached downtrend	quartz
Salt Lake Potash	SO4		uptrend	potash
Saracen Minerals	SAR		new high	gold
St Barbara	SBM		new high	gold
Sandfire Resources	SFR		up, but meeting resistance	copper
Santos	STO		new uptrend	oil/gas
Sheffield Resources	SFX		down	mineral sands
Silver City Minerals	SCI		heavy fall	base metals
Silver Lake Resources	SLR		new uptrend commenced	gold
Sino Gas & Energy	SEH		new uptrend	gas
Southern Gold	SAU		uptrend	gold
Sthn Hemisphere	SUH		down	copper
Stavelly Minerals	SVY		breached downtrend	copper exploration
Sunbird Energy	SNY		New low	gas/CBM
Sundance Energy	SEA		surge through downtrend	oil/gas
Syrah Resources	SYR		uptrend	graphite
Talga Resources	TLG		sideways through downtrend	graphene
Tanami Gold	TAM		down	gold
Tiger Resources	TGS		strong rise to secondary resistance	copper
TNG Resources	TGS		breaching downtrend	titanium, vanadium
Torian Resources	TNR		breaching downtrend	gold expl'n
Toro Energy	TOE		downtrend	uranium
Triton Minerals	TON		Turned down	graphite
Unity Mining	UML		breached downtrend	gold
UraniumSA	USA		Secondary downtrend	uranium
URI	URI		downtrend	uranium
Valence Industries	VXL		down - suspended	graphite
Vimy Resources	VMY		back to downtrend	uranium
West African Resources	WAF		new uptrend	gold
Westwits	WWI		back to recent lows	gold exploration/development
Western Areas	WSA		testing downtrend	nickel
Wolf Minerals	WLF		down	tungsten
Totals	39%	57	Uptrend	
	31%	45	Downtrend	
		145	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.

<b>Weightings of Sectors Represented in the Company Charts</b>			
<b>Sector</b>	<b>No. of Companies</b>	<b>Weighting</b>	
Gold	33	22.8%	
Copper	19	13.1%	
Oil/Gas	10	6.9%	
Gold Exploration	9	6.2%	
Uranium	8	5.5%	
Graphite	8	5.5%	
Potash/Phosphate	7	4.8%	
Zinc	6	4.1%	
Nickel	5	3.4%	
Coal	5	3.4%	
Mineral Sands	5	3.4%	
Iron Ore	3	2.1%	
Tin	3	2.1%	
Lithium	4	2.8%	
Silver	2	1.4%	
Diamonds	3	2.1%	
Bauxite	2	1.4%	
Other	13		
<b>Total</b>	<b>145</b>		

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