

Transitioning into a more discerning bull market in mining stocks

After a good period of new highs the Dow was slugged hard on Thursday in New York, and this had the knock-on effect in Australia. A 3% fall in the Dow is harsh, but we have survived worse. That move aside, we seem to be getting back to a "normal" market where greater scepticism is taking over from the ill-disciplined buying frenzy that was, until recently, dominating in our mining equities market. That is typical on the completion of the first leg of a bull market. The subsequent leg, into which the market is transitioning, is more discerning. Stocks can still rise in more shallow uptrends and there is more time to scrutinise the new flow. It becomes more of a stock pickers market than one driven by FOMO.

Gold continues to be the most important commodity for this bull market, particularly at the junior end. While the bullion price is off its highs, the news last week that the US interest rate will remain low for longer is positive for the gold price. The US dollar is weakening (with volatility) relative to the A\$. This will negatively affect earnings of our gold producers but it shouldn't have a big impact on explorers.

Tesoro has a monster at El Zorro

Tesoro has reported a huge intercept of 231m at 0.83 gpt at its El Zorro project in Chile. You might initially comment that this is low grade, but it speaks to the size of the system rather than any particular grade status. Within that broad intercept (which commenced at 72m downhole ... but the mineralisation starts at surface) are smaller high grade zones such as 54m at 1.69 gpt, 25m at 3.36 gpt, 6.7m at 11.57 gpt, 24.3m at 2.43 gpt, 3.66m at 10.7 gpt and 15.9m at 1.04 gpt. None of these are individually shabby and all could be economic, especially if taken in a big pit. These better intervals are associated with cross-cutting faults where one would normally expect better concentration of grades.

Eight of the 32 holes assayed in this program returned broad intercepts (34m to 176m) at grades of 0.85 gpt to 2.94 gpt).

It is fair to say we should expect a gold mine to be developed here, but how large and what grade is yet to be determined. It could be very large so as to get economies of scale and achieve maximum exploitation of the low grade material, as opposed to smaller higher grade mines. This is the size project that will attract the interest of the corporates that get turned on by large dimensions.

Looking at Figure 2 in Friday's release, we see two step-out holes, ZDDH00044 and 42, for which there are no results yet. If these deliver similar results to those already reported, we could be looking at a big increase in the potential size. We also need to see if the cross cutting structures that host the higher grades extend further out in this direction. The next few months of continuous exploration promises to be very exciting.

Disclosure: Interests associated with the author own shares in Tesoro Resources

Auteco quickly converts drilling to resource upgrade

This emerging new gold company pulled off quite a coup earlier this year when it picked up the high grade Pickle Crow gold project in Ontario Canada. It paid C\$0.3m in cash and shares up front, giving it the right to earn 51% by spending C\$5m and issuing 100 million shares (worth A\$17m at recent prices). Subsequently, it can move to 70% ownership by spending another C\$5m and paying C\$1m cash, and finally to 80% by paying C\$3m cash and agreeing to a 2% royalty. Historically, the mine had produced 1.5 Moz at 16 gpt.

The market obviously liked the deal, but it did take a while to sink in. The shares were 1.5¢ when the deal was announced on 28 January and by the end of February they had reached 4¢. The virus kicked them back to below 2¢ in March, but the real action had to wait until until May/June, when the maiden resource of 830,000 oz at 11.6 gpt saw the share price jump from 8¢ to the high teens, and punch through the \$200m market capitalisation at the same time that it raised \$30.4m in a placement at 13.5¢ a share.

Increase in resource to 1.1 Moz at 11.3 gpt

The market has been waiting with anticipation for drill results from a program that commenced in June. The results from the first 19 holes came out last Tuesday, along with a 170,000 oz increase in the resource. Yet strangely, the share price came off 8% on the day. Admittedly it was a rough day for the market with the All Ords falling by 1.6%. Also, the heat had gone out of the gold market with the gold price trading below \$2,000/oz, but why sell down on the release of good news? Is it a case of buy on rumour and sell on news, or did people just decide to use this as a liquidity event to cash out some profits? Probably both.

Companies usually release drill results and some time later, sometimes a very long time later, they release the maiden or updated resource. Often this is because the conversion of drill results to resources can be disappointing, so the companies would rather say nothing. The reality often falls short of the hype around a few good drill internets so companies are cautious about placing a rope around their necks.

It is actually unusual for a company to do what Auteco has done; releasing resource upgrades at the time of releasing drill results. While this minimises the build-up and the speculation - which may not suit some punters - it is a short cut to providing the most meaningful information. It is keeping shareholders fully informed.

In this case the drilling of 4,400m in 19 holes, at a cost of maybe \$1m (assuming costs of \$250/m), has added 170,000 oz of value (about \$450m in the ground). This is dramatic leverage. Admittedly some of the resource increase came from historical holes, but equally there were some good intercepts up to 250m outside of the resource boundaries that were not included in the calculations.

The drilling program is designed to complete 45,000m i.e. 10x the number just announced. Now it would be too aggressive to say that the increase in numbers can be extrapolated over the subsequent holes with any accuracy, but it would be fair to be expecting additional healthy resource upgrades in a timely fashion.

Resource value underpins the price but doesn't take into account further upgrades

The market capitalisation of the company is now around \$290m. There is about \$30m in the bank. AUT is entitled to 880,000 oz in the event that it completes the earn-in to the 80% level. That makes the market capitalisation of the company around US\$220/oz of resources. This is not unreasonable given the high gold price and the potential profit margins of a mining operation, but what price do you factor in for subsequent resource upgrades?

We can say with certainty that Auteco is delivering for shareholders. It has a high grade, potentially high profit margin on the table.

NB: There is no need to go through the table of high grade intercepts and estimate their significance because the Company has already done this in its resource upgrade. Nevertheless, they make impressive reading.

Disclosure: Nil. Interests associated with the author own shares in Auteco

Beware the two tranche placements that may come back to bite you

If we are going into a lull period, watch out for all those companies that have done two tranche placements. The first tranche is freely tradeable stock in the hands of investors, so they might decide to sell to lock in profits ahead of the second tranche. When the second lot of money is due, it might be that investors don't really want the shares due to a change in market circumstances. That means more selling. That is why I never take two tranche placement unless I'm happy to be a long term investor.

Geopolitical risk is always there

Investing (or punting) in the junior end of the market exposes one to a whole raft of risks; geological, management, financing, liquidity, commodity prices etc. The list goes on. You shouldn't be in this end of the market unless you are risk preferring and prepared to lose money, at least some of the time.

One area of risk that is always difficult to assess is geopolitical/jurisdictional risk. This may just be the issues of

dealing with corrupt regimes or incompetent bureaucracies, but it also takes into account civil wars, military coups and religious crusades of all types. The cost of acquiring projects can fall commensurately with escalating risk profiles but then it can become more difficult to attract risk capital from investors.

One area of increasing risk that is of particular relevance to many ASX listed gold companies is that of West Africa. Going back about 10 years ago, when I was chairing BGF/Canaccord, we were instrumental in opening up the minds of institutional investors to the gold potential of countries such as Burkina Faso, Cote D'Vair, Ghana, Mali and Senegal. Our methodology involved taking up to a dozen investors at a time in a charter flight to visit exploration projects, and developing and operating mines. Seeing is believing. It worked a treat and not only Australian, but also international investors embraced the potential of the region. Share prices ran hard and mines were developed. Of course, there is a downturn after every boom, so investors still had to get their timing right.

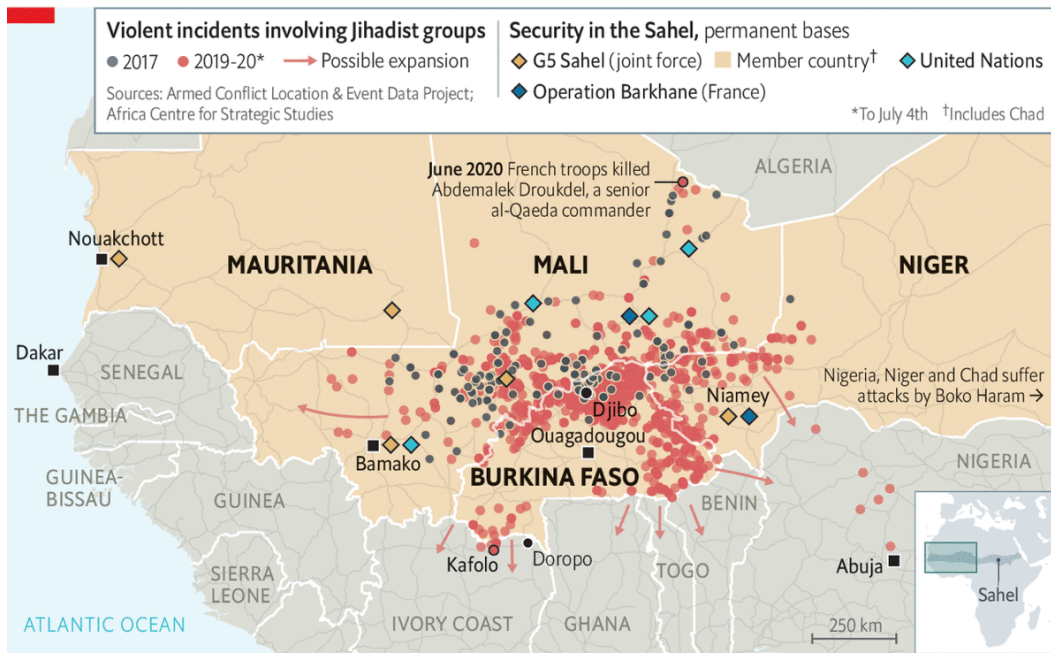
Looking at that neck of the woods today and the news that is coming out leaves me a little more cautious. Two of the hotels we used to stay at have suffered terrorist attacks in which large numbers of people died, in Burkina Faso and Mali. At the time it all seemed calm and safe but things can change. The Economist ran an article in July, stating that 4,800 people had lost their lives in Burkina Faso, Mali and Niger due to conflict with Islamic insurgents and 1.7 million people had to flee their homes. The Diagram on page three shows the increasing level of terrorist activity.

We saw the Resolute share price drop heavily recently on news of the military coup in Mali. Investors obviously suffered from a heightened state of nervousness but often such a regime change is not necessarily a negative. The incoming military government is usually keen to improve the security in a country, stepping into the shoes of often weak and indecisive elected governments. So far this seems to be the case in Mali. Domestic conflict is rarely focused on international companies that bring in foreign exchange, such as gold mining companies.

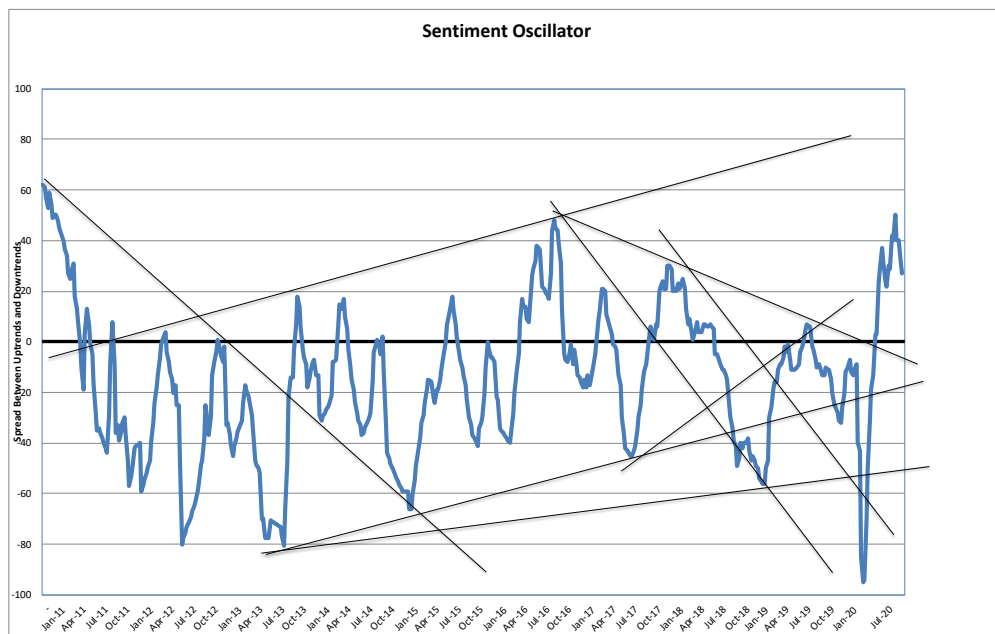
However, gold brings its own issues. Gold is money and it attracts the jihadists, especially where they can steal it from artisan miners and gold smugglers. Well-organised foreign-owned gold companies are better equipped with security measures but they are not immune. There have been cases of mine workers and ex-pats being victims.

We have a number of ASX-listed companies operating in the region. If the jihadist activity doesn't get any worse then I suppose the issue is manageable, but that depends upon the ability of the national governments to get on top of it. Nothing is certain in this part of the world.

We have added Thor Mining (THR) to chart coverage, given some interesting stream sediment gold exploration results in the Pilbara.



The Economist














































Sentiment Oscillator: Sentiment has weakened further. There were 50% (52%) of the charts in uptrend and 23% (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. 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	struggling under resistance line	
Metals and Mining	XMM	testing uptrend	
Energy	XEJ	sideways	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
Alpha HPA	A4N	new high	HPA
Adriatic Resources	ADT	pullback	zinc, polymetallic
Aeon Metals	AML	new high	copper + cobalt
Alkane Resources	ALK	heading lower	gold, zirconia
Alicanto Minerals	AQI	surge to new high	base metals, silver, gold
Allegiance Coal	AHQ	sideways	coking coal
Alliance Resources	AGS	pullback	gold predevelopment
American Rare Earths (was BPL)	ARR	heavy correction	rare earths
Apollo Consolidated	AOP	downtrend commenced	gold exploration
Arafura Resources	ARU	breached downtrend	rare earths
Aurelia Metals	AMI	continuing higher	gold + base metals
Australian Potash	APC	strongly higher	potash
Auteco Minerals	AUT	new high	gold exploration
BHP	BHP	down	diversified, iron ore
Base Resources	BSE	rising	mineral sands
BBX Minerals	BBX	higher	gold exploration
Beach Energy	BPT	testing downtrend	oil and gas
Beacon Mining	BCN	gentle downtrend	gold production
Bellevue Gold	BGL	new high again	gold exploration
Blackstone Minerals	BSX	rising	nickel
Blue Star Helium	BNL	testing downtrend	gas, helium
Breaker Resources	BRB	still in LT downtrend	gold exploration
Buru Energy	BRU	sideways	oil
Buxton Resources	BUX	steeply higher	nickel exploration
Calidus Resources	CAI	sideways at highs	gold
Capricorn Metals	CMM	breached uptrend	gold
Cardinal Resources	CDV	surge on takeover bid	gold exploration
Central Petroleum	CTP	rising	oil/gas
Chalice Gold	CHN	surge to new high	nickel, copper, PGMs, gold exploration
Chase Mining	CML	hit resistance	nickel/copper/PGE
Chesser Resources	CHZ	off its highs	gold exploration
Cobalt Blue	COB	on support line	cobalt
Dacian Gold	DCN	rallying	gold
Danakali	DNK	testing uptrend	potash
Davenport Resources	DAV	still in longer term downtrend	potash

De Grey	DEG		new high	gold
E2 Metals	E2M		at highs	gold exploration
Ecograf (was Kibaran)	EGR		stronger	graphite
Element 25	E25		off its highs	manganese
Emerald Resources	EMR		breached uptrend	gold
Euro Manganese	EMN		breached downtrend	manganese
Evolution Mining	EVN		sideways	gold
First Graphene	FGR		sideways	graphene
Fortescue Metals	FMG		new high	iron ore
Galaxy Resources	GXY		rising	lithium
Galena Mining	G1A		rising	lead
Galilee Energy	GLL		breached uptrend	oil and gas, CBM
Genesis Minerals	GMD		uptrend	gold
Gold Road	GOR		down	gold
Highfield Resources	HFR		breached support	potash
Hillgrove Resources	HGO		still in downtrend	copper
Iluka Resources	ILU		higher	mineral sands
Image Resources	IMA		higher	mineral sands
Independence Group	IGO		down	gold
ioneer (was Global Geoscience)	INR		down	lithium
Ionic Rare Earths (Oro Verde)	IXR		gentle uptrend	rare earths
Jervois Mining	JVR		surge higher	nickel/cobalt
Jindalee Resources	JRL		surge out of downtrend	lithium
Kin Mining	KIN		down	gold
Kingston Resources	KSN		new high	gold
Kingwest Resources	KWR		down	gold
Legend Mining	LEG		sideways	nickel exploration
Lepidico	LPD		sideways	lithium
Lindian Resources	LIN		higher	bauxite
Lithium Australia	LIT		new uptrend	lithium
Los Cerros	LCL		uptrend	gold exploration
Lotus Resources	LOT		new high	uranium
Lucapa Diamond	LOM		pullback on exploration news	diamonds
Lynas Corp.	LYC		new high	rare earths
Mako Gold	MKG		breached uptrend	gold exploration
Manhattan Corp	MHC		new high	gold exploration
Marmota	MEU		drifting lower	gold exploration
Marvel Gold (was Graphex)	MVL		hitting resistance	gold exploration
MetalTech	MTC		breached uptrend	gold
MetalsX	MLX		sideways	tin, nickel
Metro Mining	MMI		new low	bauxite
Mincor Resources	MCR		rising	gold/nickel
Musgrave Minerals	MGV		off its highs	gold exploration
Myanmar Minerals	MYL		surge to new high	lead, zinc, silver

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Nelson Resources	NES		rising	gold exploration
Neometals	NMT		testing downtrend	lithium
Northern Minerals	NTU		steeply higher	REE
Northern Star Res.	NST		down	gold
NTM Gold	NTM		sideways	gold exploration
Oceana Gold	OGC		breached uptrend	gold
Oklo Resources	OKU		down	gold expl.
OreCorp	ORR		rising	gold development
Orocobre	ORE		down	lithium
Oz Minerals	OZL		new high	copper
Pacific American Holdings	PAK		breaching downtrend	coal
Pacifico Minerals	PMY		down	silver/lead
Pantoro	PNR		breached uptrend	gold
Panoramic Res	PAN		breaching downtrend	nickel
Peak Resources	PEK		steeply higher	rare earths
Peel Mining	PEX		uptrend	copper
Peninsula Energy	PEN		down again	uranium
Pure Minerals	PM1		rising	nickel/cobalt/HPA
Pensana Metals	PM8		surge to new high	rare earths
Perseus Mining	PRU		testing uptrend	gold
Pilbara Minerals	PLS		testing support	lithium
Polarex	PXX		new high	polymetallic exploration
Ramelius Resources	RMS		breached uptrend	gold production
Red5	RED		rallying	gold
Red River Resources	RVR		testing uptrend	zinc
Regis Resources	RRL		breached trend line	gold
Regergen	RLT		recapturing uptrend	gas, helium
Resolution Minerals	RML		rising again	gold exploration
Resolute Mining	RSG		testing support	gold
RIO	RIO		down	diversified, iron ore
Rumble Resources	RTR		rising again	gold exploration
Salt Lake Potash	SO4		hitting resistance	potash
Saracen Minerals	SAR		breaching uptrend	gold
St Barbara	SBM		on trend line	gold
Sandfire Resources	SFR		breached downtrend but heavy pullback	copper
Santos	STO		sideways	oil/gas
Saturn Metals	STN		breached uptrend	gold exploration
Sheffield Resources	SFX		new high	mineral sands
Sky Metals	SKY		breaching downtrend	gold exploration
St George Mining	SGQ		down	nickel
Silex Systems	SLX		breaching uptrend	uranium enrichment technology
Silver Mines	SVL		off its high	silver
Sipa Resources	SRI		rising	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		new low	coal

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Strandline Resources	STA		drifting lower	mineral sands
Talga Resources	TLG		rising	graphite
Technology Metals	TMT		on support line	vanadium
Tesoro Resources	TSO		new high	gold exploration
Theta Gold Mines	TGM		uptrend	gold
Titan Minerals	TTM		drifting lower	gold
Vango Mining	VAN		testing uptrend	gold
Venturex	VXR		testing downtrend	zinc
Vimy Resources	VMY		down	uranium
West African Resources	WAF		off its high	gold
Westgold Resources	WGX		down	gold
West Wits Mining	WWI		rising	gold
Western Areas	WSA		down	nickel
Whitebark Energy	WBE		down	oil and gas
Whitehaven Coal	WHC		secondary downtrend	coal
Wiluna Mining	WMX		spike then pullback	gold
Yandal Resources	YRL		breached uptrend	gold exploration
Zinc Mines of Ireland	ZMI		still in downtrend	zinc
Totals	50%	70	Uptrend	
	23%	32	Downtrend	
		141	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	35	24.8%
Gold Exploration	24	17.0%

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Zinc/Lead	6	4.3%	
Nickel	12	8.5%	
Oil/Gas	8	5.7%	
Lithium	8	5.7%	
Coal	4	2.8%	
Mineral Sands	5	3.5%	
Rare Earths	7	5.0%	
Potash/Phosphate	5	3.5%	
Copper	6	4.3%	
Graphite	2	1.4%	
Iron Ore/Manganese	5	3.5%	
Uranium	4	2.8%	
Bauxite	2	1.4%	
Silver	2	1.4%	
Cobalt	1	0.7%	
Tin	1	0.7%	
Diamonds	1	0.7%	
Other	3		
Total	141		

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