

6 June 2020

On Friday's Close

Analyst : Warwick Grigor

Silver stocks should be on the watch list

The coronavirus bull market showed no sign of slowing down last week as more and more stocks threw off the shackles. The market seems to have a mind of its own and no-one can really say why, with any conviction.

Perhaps the Weekend Australian said it all on page 21; "...unprecedented monetary and fiscal stimulus puts markets further out of touch with economic reality". The A\$ has burst through US70c and the local sharemarket is up 32% since mid-March. Can it last?

The iron ore stocks are about the only ones following logic with the Pilbara producers stepping up to the plate and receiving ever higher prices while shipments from Brazil are significantly lower.

I don't remember there being a period in the last 30 years when there was such universal love given to the gold sector. Everyone thinks it is going higher, which is a warning in itself, but so far that love has been on the money. Though, the falls in the gold price last week might prompt some short term profit taking. Some of the charts are pointing to this thought, but gold producers will always fluctuate with the gold price.

Silver due for a catch up

Our markets are experiencing the greatest romance with gold since the 1980s, which saw the revival of gold production in Australia. Everyone wants gold, but what about its cheaper relative, silver? There hasn't been much chatter about silver even though it too has currency value, particularly in the USA. Should we be getting excited by the outlook for silver prices?

One of the problems with the silver sector is that there are so few vehicles in which to invest. Another is that silver is mostly a co-product with metals such as lead, zinc and yes, gold. Thirdly, Australia is not well-known for its silver resources. You have to go to the Americas for the really large silver deposits.

The silver price has lifted by almost 30% over the last month, and by 50% since early March, when the virus caused a quick collapse. It is back to levels of US\$16-18/oz where it spent most of the second half of 2019, but it is still a long way short of its highs early this decade, as demonstrated on the chart below. The second chart shows how the silver price has performed relative to the gold price over the last 20 years. It suggests that silver has some catching up to do in order to retain the historical correlation. If you want to be ahead of the pack, maybe it is time to get set in silver.



Santana Minerals still has its Mexican silver project

A company that we have covered in the past is Santana Minerals (SMI), which was well along the path of proving an 80-100 Moz silver deposits at the Cuitaboca Project (earning 80%) in Mexico at grades of 80-100 gpt. Although it was progressively meeting its exploration objectives it never really gained the market's attention and the silver project was placed on ice due to a lack of funding. It was not alone. All other ASX-listed silver hopefuls - about half a dozen of them - just withered on the vine.

The 2019 annual report of Santana said "An uplift in the silver price would encourage further drilling to test the open zones at Mojardina and at the La Plata and Prospect and likely be followed by a resource estimate."

The extent to which SMI reactivates the silver projects will be influenced by the results it gets from the drill program for the nickel exploration play in Vietnam, the results for which are due any day now. This grass roots project covers a large area, being 14 km x 1 km. Early drill results hit sulphide mineralisation but grades were not encouraging. In the south of the project area more recent drilling hit

layered sulphides that look more promising, but we won't really know until the results are reported.

Cuitaboca still holds a lot of promise for both silver and gold, but it will take more money than the Company currently has - about \$1.5m now. Maybe a spinout of the precious metals assets in a new company would be justified because it will be difficult to fund both the nickel and the silver/gold, in Vietnam and Mexico

Disclosure: Interest associated with the author own shares in Santana Minerals

Silver Mines is having another crack

I remember the late, great Gavin Thomas telling me how good the Bowden silver project was when Kingsgate Consolidated (KCN) picked it up for \$75m, probably 20 years ago. In his opinion it was the best undeveloped silver deposit in Australia. As good as it seemed to be, it was never developed even though Kingsgate spent \$35m on it.

The project ended up in the hands of Silver Mines (SVL), which IPO'd in January 2007, raising \$3m to pursue silver projects in northern NSW. None of these proved to be company makers. The Company then spend a number of years searching for new projects, finally agreeing to purchase an 85% interest Bowden in March 2016 (it now has 100%). At the time the resource was 88 Mt at 47.4 gpt Ag, or 64.4 gpt Ag Eq when lead and zinc credits were added, making it the largest undeveloped silver property in Australia. It is located 26 km east of Mudgee in NSW.

SVL paid in the order of \$20m and some shares in a somewhat complicated arrangement. It then undertook a 100 into 1 consolidation and raised \$35m in a placement at 15¢. At the time there was a draft feasibility study out that contemplated at 4.5 Mtpa project processing ore grading 68 gpt. Capex was \$363m and opex was \$22/oz for 8 Moz p.a. When other metal credits were added back the opex fell to \$7.56/oz.

In September 2017, the resource was upgraded to 128 Mt at 67 gpt Ag Eq, for 275 Moz, with a high grade core of 46 Mt at 106 gpt for 158 Moz Ag Eq. However, the market wasn't impressed. By April 2018, the share price had fallen to 4.5¢ and a \$2.75m placement was done at 4¢ a share. Notwithstanding a larger resource, a scaled down feasibility study looked at a 2 Mtpa operation costing \$246m. However, the EIS and government approvals were proving to be an obstacle to development. Additional exploration projects in the Lachlan Fold Belt were acquired

Fast forward to today. The share price is 10.5¢ and the company has a market capitalisation of \$105m, having just raised \$12m at 10¢ a share. The Development Application (DA) has been lodged with the NSW government. Hopefully this doesn't take too long to be approved, so then the Company can think about where it is going to get the \$250-\$300m needed to develop the project. Maybe it will become Australia's largest stand-alone silver producer but for now it is all about finance, development and commissioning risk.

Reyna Silver has strong geological credentials

Reyna Silver is a Canadian-listed company currently capitalised at about C\$14.5m, with C\$6m in the bank. It's largest shareholder is MAG Silver, with a 19.9% shareholding. Its principal focus is the Guigui silver project

in Mexico. This is located in an historically rich Santa Eulalia District that has produced 50 Mt at 310 gpt Ag, 8.2% Pb and 7.1% Zn.

Reyna has a very experienced technical advisor in Dr Peter Megaw, a geologist who has been working the Mexican silver geology for 40 years.

MAG Silver drilled 9,515m of holes on the Guigui Project up until 2015. These showed that the mineralisation of the neighbouring San Antonio Mine continues into Guigui with indications of a much larger hydrothermal system. Having sat through a geological presentation I was very impressed with the upside potential and the leverage that the share price offers at this level.

The reason for mentioning Reyna, even though it is not listed on the ASX, is that it offers geological upside that can't be found anywhere in Australia. If you are serious about wanting exposure to silver exploration and production, you should see what is happening in Mexico. North Americans have been long term supporters of silver mining in Mexico. If the silver price does take off from here, the best performers in the stock market will be those companies that the Americans will buy. Reyna Silver is a good place to start.

Peninsula Energy saying goodbye to debt

There are a number of private equity firms around the globe that profess to be experts in mining companies, but it is amazing how often that expertise is far from the mark. Quite often they get it wrong and then it becomes a difficult battle between ordinary shareholders like you and me, and the private equity firms that have bags of cash to invest. These firms do provide useful finance for companies that want to develop projects, but if something goes wrong - as is commonly experienced - they like to throw their weight around.

Peninsula was one of the two ASX-listed companies that developed uranium mines during the last uranium boom. While they were standouts for that success, shareholders in both Peninsula and Paladin haven't seen any benefits. Both relied upon debt finance to get up and running. Even the debt providers haven't made any money.

Last week Peninsula announced a punishing \$40.3m fully underwritten entitlement issue at 7.1¢ a share, a discount of 45% on the closing price, on a ratio of 9 for 5. It was only a few weeks ago that the shares had spiked to 22¢. Peninsula had developed an in-situ leach (ISL) uranium mine in Wyoming, USA. That was an achievement, taking about nine years of work before getting to commissioning stage. However, as so often seems to happen, that was the start of the problems.

Fukushima and the collapse of the uranium price was a problem but fortunately Peninsula had very wisely sold substantial tonnages at prices in excess of US\$50/lb, so it had some price protection and it was able to suspend mining and buy spot uranium to deliver into these contracts. It thereby avoided the pain of having operating costs higher than the spot uranium price. However, there was an operational issue that was lurking as well.

The Lance uranium mine was considered one of the more environmentally friendly new uranium mines because it was planned to produce uranium using an alkaline leach process rather than acid leach, but there was a metallurgical issue that wasn't picked up until the mine was

operating. In simple words, many of the grains of sand on which the uranium sat had another layer of material over the top of the uranium. That meant that the alkaline process could not adequately dissolve the uranium and recovery rates were frequently only 50% of what was expected. It was a problem that could only be remedied by a switch to acid leaching, for which it has now secured approvals.

Getting back to the entitlement issue, it seems that the private equity firms just wanted to exit their positions. The heavy, 9 for 5 issue was designed to retire all the debt, being A\$26.3m, and leave the Company with a cash balance of US\$10m. That gives Peninsula a reasonable platform on which to plan for a resumption of operations with a low pH recovery method. Being fully underwritten, success of the issue is almost certain.

So, Peninsula looks like it is a turnaround story that is well placed to benefit if the uranium price continues to climb. Its experience should be taken as a lesson by any other uranium hopeful, particularly where ISL methodology is involved. Each project is different with its own set of metallurgical problems. Don't expect that the mere presence of a uranium resource in the ground is going to lead to a successful and profitable mining venture, even if you get through all the environmental and bureaucratic hurdles.

Disclosure: Interest associated with the author own shares in Peninsula. The author was once a director of Peninsula but retired a couple of years ago.

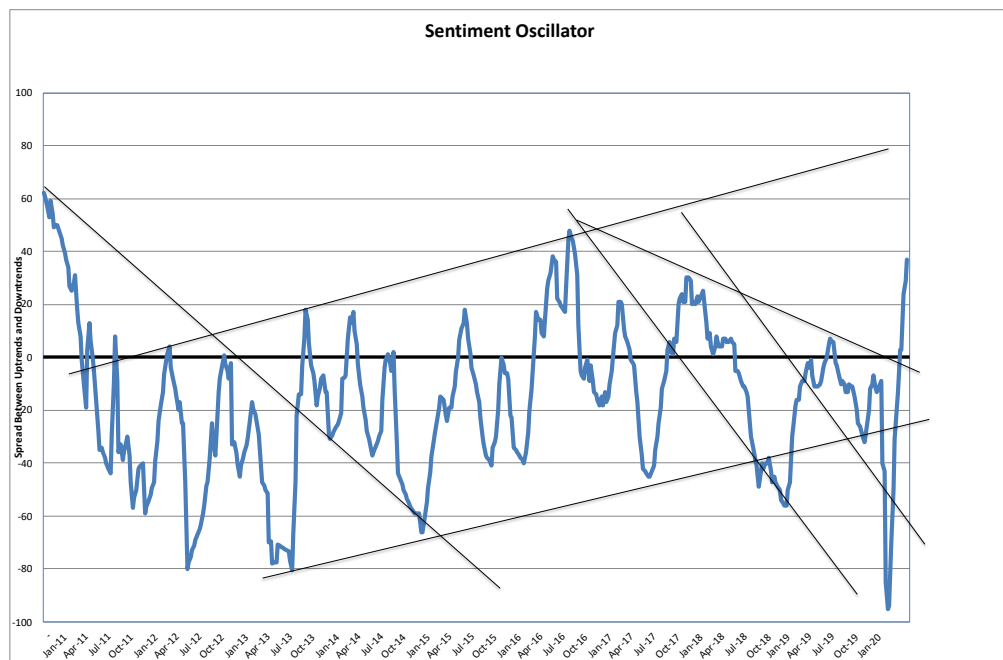
One law for some, and another for the rest

The whole concept of social distancing and lockdowns was shown to be a farce with the allowing of the black lives matter marches on Saturday. The duplicity and hypocrisy of the medical profession was exposed with doctors in the USA saying that the marches should be allowed. Once again the contemptuous, radical noisy minority has overridden the law abiding majority.

All races are racist. All groups are discriminatory. You can't be a member of a group if there is no membership criteria to keep the rest out. People have a natural desire to be part of a group because they believe that membership improves their chance of success in life.

Society will only progress beyond these battlefields when we are all treated as individuals each with its own merit, but I suppose that is too idealistic, and too lonely for some.

We have deleted Cobalt Blue and Exore Resources from chart coverage and added Rumble Resource and Silver Mines.



Sentiment Oscillator: Sentiment continued to improve with 56% (53%) of the charts in uptrend and 19% (23%) 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	strongly higher	
Metals and Mining	XMM	strongly higher	
Energy	XEJ	rising again	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
Alpha HPA	A4N	hugging support line	HPA
Adriatic Resources	ADT	rising again	zinc
Aeon Metals	AML	rising again, approaching resistance	copper + cobalt
Alacer Gold	AQG	breached uptrend	gold – production
Alkane Resources	ALK	surge higher	gold, zirconia
Alicanto Minerals	AQI	breached uptrend	gold exploration
Allegiance Coal	AHQ	testing downtrend	coal
Alliance Resources	AGS	surge above resistance line	gold exploration
Apollo Consolidated	AOP	Uptrend	gold exploration
Arafura Resources	ARU	breaching resistance line	rare earths
Aurelia Metals	AMI	surge out of downtrend	gold + base metals
Australian Potash	APC	down	potash
Australian Mines	AUZ	base forming	cobalt/nickel
Australian Vanadium	AVL	new low	vanadium
BHP	BHP	surge to new high	diversified, iron ore
Base Resources	BSE	sideways through downtrend line	mineral sands
Bathurst Resources	BRL	down	coal
BBX Minerals	BBX	down	gold exploration
Beach Energy	BPT	rallied through downtrend	oil and gas
Beacon Mining	BCN	breached uptrend	gold production
Bellevue Gold	BGL	new high	gold exploration
Blackstone Minerals	BSX	testing uptrend	nickel
Breaker Resources	BRB	rising	gold exploration
Broken Hill Prospecting	BPL	rising	minerals sands
Buru Energy	BRU	rising	oil
Buxton Resources	BUX	turned down at resistance line	nickel exploration
Capricorn Metals	CMM	rising again	gold
Cardinal Resources	CDV	rising, on support line	gold exploration
Cassini Resources	CZI	at highs	nickel/Cu expl.
Central Petroleum	CTP	breached downtrend	oil/gas
Chalice Gold	CHN	off its highs	gold exploration
Chase Mining	CML	breached downtrend	nickel/copper/PGE
Chesser Resources	CHZ	new uptrend started	gold exploration
Dacian Gold	DCN	collapse on recapitalisation	gold
Danakali	DNK	at resistance line now	potash

Davenport Resources	DAV		testing resistance line	potash
De Grey	DEG		new high	gold
E2 Metals	E2M		risen to resistance line, again	gold exploration
Ecograp (was Kibaran)	EGR		surge higher but heavy pullback	graphite
Emerald Resource	EMR		breaching downtrend	gold
Evolution Mining	EVN		testing uptrend	gold
FAR	FAR		sideways	oil/gas
First Graphene	FGR		sideways around entitlement price	graphene
Fortescue Metals	FMG		new high	iron ore
Galaxy Resources	GXY		down	lithium
Galena Mining	G1A		surge through resistance line	lead
Galilee Energy	GLL		rally through resistance line	oil and gas, CBM
Gold Road	GOR		correcting lower	gold
Graphex Mining	GPX		suspended since 25th March	graphite
Heron Resources	HRR		breaching downtrend	zinc
Highfield Resources	HFR		strong rise	potash
Hillgrove Resources	HGO		still in downtrend	copper
Iluka Resources	ILU		surge confirms uptrend	mineral sands
Image Resources	IMA		slump out of short term uptrend	mineral sands
Independence Group	IGO		Uptrend	gold, nickel
ioneer (was Global Geoscience)	INR		down	lithium
Ionic Rare Earths (Oro Verde)	IXR		breached downtrend	rare earths
Jervois Mining	JVR		looking weaker	nickel/cobalt
Jindalee Resources	JRL		still under resistance line	lithium
Kin Mining	KIN		strongly higher	gold
Kingston Resources	KSN		uptrend through resistance line	gold
Kingwest Resources	KWR		breached uptrend	gold
Legend Mining	LEG		surge to new high	nickel exploration
Lepidico	LPD		testing downtrend	lithium
Lindian Resources	LIN		back to lows	bauxite
Lithium Australia	LIT		recovered to hit resistance line	lithium
Lotus Resources	LOT		breached uptrend	uranium
Lucapa Diamond	LOM		at lows	diamonds
Lynas Corp.	LYC		rising again	rare earths
Mako Gold	MKG		testing downtrend	gold exploration
Manhattan Corp	MHC		rising	gold exploration
Marmota	MEU		strong recovery	gold exploration
MetalsX	MLX		testing downtrend	tin, nickel
Metro Mining	MMI		testing downtrend	bauxite
Mincor Resources	MCR		rising	gold
Musgrave Minerals	MGV		strongly higher	gold exploration
Myanmar Minerals	MYL		breached downtrend	zinc
Nelson Resources	NES		uptrend through resistance line	gold exploration
Neometals	NMT		continuing down	lithium

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

Syrah Resources	SYR		breaching steepest downtrend	graphite
Talga Resources	TLG		rising	graphite
Technology Metals	TMT		rising	vanadium
Tesoro Resources	TSO		good recovery	gold exploration
Titan Minerals	TTM		strong rise	gold
Vango Mining	VAN		drifting lower	gold
Venturex	VXR		down again	zinc
Vimy Resources	VMY		strong rally	uranium
West African Resources	WAF		new high	gold
Westgold Resources	WGX		breached uptrend	gold
West Wits Mining	WWI		rising	gold
Western Areas	WSA		testing downtrend	nickel
Whitebark Energy	WBE		sideways	oil and gas
Whitehaven Coal	WHC		breached downtrend	coal
Yandal Resources	YRL		rising	gold exploration
Zinc Mines of Ireland	ZMI		strong rally	zinc
Totals	56%	78	Uptrend	
	19%	26	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	22	15.8%	
Oil/Gas	8	5.8%	

Nickel	9	6.5%	
Lithium	8	5.8%	
Coal	6	4.3%	
Zinc/Lead	10	7.2%	
Mineral Sands	6	4.3%	
Rare Earths	6	4.3%	
Potash/Phosphate	5	3.6%	
Copper	5	3.6%	
Cobalt	2	1.4%	
Graphite	4	2.9%	
Tin	1	0.7%	
Iron Ore	3	2.2%	
Uranium	3	2.2%	
Bauxite	3	2.2%	
Vanadium	1	0.7%	
Silver	3	2.2%	
Diamonds	1	0.7%	
Other	2		
Total	139		

FEC Disclosure of Interests: It is a requirement of ASIC that holders of AFS licences prominently disclose any conflicts of interest. At all times readers should be aware that Far East Capital Ltd is an active investor. It shares its research and opinions free of charge to other investors and it aims to do so on an ethical basis. Accordingly, when it is writing about stocks in which it holds interests, these will be disclosed. In this week's publication FEC discloses that interests associated with the the author hold shares in First Graphene. and Lucapa Diamond Company. The author is chairman of First Graphene and one of the largest shareholders, through a number of entities. Over the last three years FEC has received fees from Alicanto Minerals, Blackstone Minerals, Broken Hill Prospecting, Cobalt Blue, First Graphene, Golden Rim, Lindian Resources, Lucapa Diamond Company, Orinoco Gold, Pacific American and West Wits for corporate and capital raising services. Its primary business is investing and managing its own money, but it does occasionally raise money for resource companies.

Disclaimer: This Research Report has been prepared exclusively for Far East Capital clients and is not to be relied upon by anyone else. In compiling this Commentary, we are of necessity unable to take account of the particular investment objectives, financial situation and needs of any of our individual clients. Accordingly, each client should evaluate the recommendations obtained in this Commentary in the light of their own particular investment objectives, financial situation and needs. If you wish to obtain further advice regarding any recommendation made in this Commentary to take account of your particular investment objectives, financial situation and needs, you should contact us. We believe that the advice and information herein are accurate and reliable, but no warranty of accuracy, reliability or completeness is given and (except insofar as liability under any statute cannot be excluded) no responsibility arising in any other way for errors or omissions or in negligence is accepted by Far East Capital Limited or any employee or agent. For private circulation only. This document is not intended to be an offer, or a solicitation of an offer, to buy or sell any relevant securities (i.e. securities mentioned herein or of the same issuer and options, warrant, or rights with respect to or interests in any such securities). We do not guarantee the accuracy or completeness of the information herein, or upon which opinions herein have been based. At any time we or any of our connected or affiliated companies (or our or their employees) may have a position, subject to change, and we or any such companies may make a market or act as principal in transactions, in any relevant securities or provide advisory or other services to an issuer of relevant securities or any company therewith. Unless otherwise stated all views expressed herein (including estimates or forecasts) are solely those of our research department and subject to change without notice. This document may not be reproduced or copies circulated without authority. Copyright © Far East Capital Ltd 2019.