

Could we be witnessing the rebirth of a diamond exploration boom in WA?

The trade war is dominating debate around the world at present with commentators saying that this is likely to be negative for commodities, but that is only an opinion. It doesn't seem to be negatively affecting the sentiment in the US markets and it hasn't held back our leading mining companies on the ASX. Strangely it is affecting speculative companies more (or is there another reason why the junior end is still out of favour?).

Gold has continued to soften with speculators' net-long positioning falling to its lowest level in a year, ahead of the seasonally weak Q3 demand. Nevertheless, we are not seeing any panicking and we are not seeing gold producers being punished. Elsewhere there is not much inspiration on which to pin ones hopes. So, I thought we should focus on something different this week; diamond exploration in W.A.

The diamond exploration thematic

Specialist diamond analysts in London spend much of their time assessing the state of the diamond market, looking at supply and demand and extrapolating their views to their earnings models for the listed diamond sector. As fundamentally sound as that methodology is, diamond exploration is more about the excitement in looking for the pot of gold at the end of the rainbow. It is about turning low value remote ground worth a few dollars an acre into something of extreme value; tens or hundreds of millions of dollar an acre. The furthest thing from the minds of speculators is the fundamental balance of the diamond market. All they want is the sizzle of the exploration quest.

In any speculative boom, in any sector, there are a number of essential ingredients for a boom to emerge. There needs to be a critical mass with a number of companies and promoters spreading the word. That is starting to emerge in WA. It is also helpful if the market is naive about the commodity so that the blind can be led by the promoters. We need new blood in terms of punters, brokers and analysts who haven't yet been through the wringer with the commodity in question. We also need a market leader that gives some modicum of creditability to the concept. In graphite it was Syrah and in uranium it was Paladin. These companies ran to dizzy market capitalisations and a rat pack quickly emerged in a quest to emulate the stock market of the sector leaders. Here, in diamonds, that leader could well be Lucapa given it is an established producer of institutional size, with an exciting exploration play in the Kimberley.

One final ingredient you need is an expanding information curve. With the arrival of the dry season in northern Australia you will see an active field season on the diamond front. Any good results will receive plenty of publicity and this should be reflected in share price movements. So, this could be fertile ground for the punters.

An historical snapshot of diamonds in WA and the NT

Diamond exploration is terribly difficult, with some experts saying that finding a diamond mine is 1,000 times more difficult than finding a gold mine. Yet, when you find (and make) one, the rewards can be outstanding. At the best end of the scale you could end up with an Argyle. At the other end of the spectrum, you might actually prove a diamond deposit but fail on the economics.

Back in the 1970s there was a diamond boom that went on for a few years on the back of the discovery and proving of Argyle. Every man and his dog was involved and this kept the speculative market bubbling along for quite a while. Argyle was developed, as was an alluvial operation at Smoke Creek, but the lack of more extensive exploration success led to the inevitable fall off in interest in the market.

Since the Argyle boom there have been some other successes. The Merlin diamond mine in the Northern Territory provided some, but limited joy. Miles Kennedy was successful with the commissioning of mines at Ellendale 4 and 9, with shareholders benefiting from a well-priced takeover bid from Gem. Blina had geological but not economic success. Unfortunately the Cambridge Gulf rort subsequently turned many investors off diamonds forever, be they in Australia or in more exotic locations. Such has been the resultant distrust of diamonds that Lucapa has had enormous difficulty in getting institutional support for its fabulously rich and profitable mine in Angola.

Yet, in recent months I have noticed some movement at the station with regards to diamond exploration in Australia, with a number of companies and projects coming to my attention. In a stock market where money rotates from one commodity sector to the next in the quest for the next hot thing, it is only a matter of time before the diamond bulls get another run. Could we be seeing the early signs of this happening again?

So far the following companies have come to my attention.

DeVex Resources (DEV) Price: 0.5¢ Mkt Cap: \$5.6m

In January, DEV completed a 1 for 2 entitlement issue at 0.8¢, raising \$2.84m, stating it was chasing lithium, gold and copper. The shortfall was 55%, leaving \$1.56m for directors to place at their discretion. However, instead of placing the shortfall, in April it announced a 1 for 4 issue at 0.5¢ to raise \$1.1m. This time around the shortfall was only 7%, or \$78,000. Tim Goyder reduced his holding slightly to 23.8%.

On 2 July, DeVex announced two diamond prospect applications in the Kimberley region of WA. The **Oscar** application lies SE of the Ellendale diamond mines and south of Lucapa's Little Spring Creek diamond discovery. Previous explorers have found four lamproite occurrences

on Oscar. The **Mount Hann** application lies equidistant between Ellendale and Argyle. Numerous micro-diamonds have been recovered from stream sediment and loam sampling undertaken by companies such as CRA Exploration, but only four out of 64 targets were drill tested. Field work will commence when the applications are granted. It is very early days for DeVex, but it has a seat at the table.

GeoCrystal (Undertaking \$7m IPO)

GeoCrystal is a new company embarking on an IPO, having already spent \$4.7m on the Webb diamond project, in the remote Gibson Desert, SW of Lake Mackay in WA. CRA conducted exploration in the 1990s, drilling 10 anomalies with some encouragement, but not enough to continue the quest. In 2001/02, BHP reviewed that data but never did any field work. Meteoric Resource then acquired the ground in 2008, and undertook a detailed aeromagnetic survey that identified anomalies that looked like vertical pipe-like bodies. It entered into a JV with GeoCrystal in 2013.

So far GeoCrystal has found micro-diamonds, having drilled 71 holes for 7,713m in 64 targets. Kimberlitic material has been found in 51 of these and there are 216 targets remaining to be tested. It has earned an 81.5% interest to date and this is increasing its equity as it sole risks continuing exploration expenditure.

Its second project is the 80%-owned Merlin South, 40 km S of the Merlin diamond mine and 800 km SE of Darwin in the NT. Despite exploration programs conducted by Ashton Mining, Gravity Diamonds and North Australian Diamonds, over a 15 year period, no source of the kimberlite indicator minerals was found. Nevertheless, the surface indicator mineral anomaly measuring 7 km x 4 km has yielded repeatable high concentrations of micro-diamonds and some macro-diamonds.

GeoCrystal's earlier stage, third project, is Yambarra in the Daly River region of the NT, where a 200m diameter discrete magnetic anomaly has been modelled as a vertical pipe-like intrusion.

GeoCrystal has an experienced diamond team that includes Zlad Sas on the board, and the legendary Ewen Tyler (ex-Ashton) as a consultant. Chalice Gold Mines (Tim Goyder) is currently a 19% shareholder (pre-IPO).

Lithoquest Diamond Inc (TSX.V:LDI) Price: C50¢ Mkt Cap: C\$23m (pre-dilution for warrants)

In February 2018, LDI announced the recovery of kimberlitic indicator minerals on its 100%-owned North Kimberley diamond project, not far from the Seppelt and Ashmore kimberlites, and 225 km NW of Kununurra. Previous explorers included CRA Exploration, BHP Minerals, Stockdale Prospecting (De Beers) Dioro Exploration, AKD and Striker Resources. There were numerous positive results from the prior exploration but so far there has been nothing of substance defined.

When the Company recently announced the recovery of three micro-diamonds from a 10 kg sample of outcrop its shares spiked from 24¢ to 88¢ in a few days. Thus there was some speculative fervour seen in the Canadian market.

Lucapa Diamonds Co. (LOM) Price: 27¢ Mkt Cap: \$123m

LOM has some excellent diamond production projects in Angola and Lesotho, so its diamond credentials are well-established, but it is the 80%-owned Brooking exploration project in WA's Kimberley region that promises to reintroduce some speculative fervour into the share price.

Lucapa quietly announced a deal to acquire the interest in Brooking in October 2016. Located within 40 km of the Ellendale diamond field, the entry price was \$140,000 cash, 250,000 shares and 500,000 options. Initial work provided positive result, culminating in the drilling of an exploration hole late in 2017, at Little Spring Creek. That HQ (63mm) diameter hole recovered 119 diamonds, including 7 macro-diamonds. This was an extraordinary result; diamonds recovered in the first drill hole. Subsequent analysis of the cleaned diamonds showed a relatively high white diamond content with yellow diamonds also being observed.

In mid June 2018, Lucapa announced that the first hole in the follow-up drilling at Little Spring Creek had successfully intersected the lamproitic body from 2m depth, with drilling continuing. The program comprises 10 holes of PQ and NQ core to depths of 100-150m.

While it is still early days, the initial results have been outstanding. They have already caused some punters to opine that this could be "as big as Argyle", though there is no scientific basis to suggest that yet. Certainly it is one to watch with interest as so far it has ticked all of the right boxes.

Disclosure: Interests associated with the author own shares in Lucapa and have received capital raising fees.

POZ Minerals (POZ) Price: 8.2¢ Mkt Cap: \$14.6m

In October 2015, POZ announced the acquisition of the Blina Diamond Project in the Ellendale region of WA. This is essentially an alluvial diamond project on ground that was previously explored and mined by companies that include Stockdale Prospecting, Diamond Ventures, Kimberley Diamond Company and Blina Diamonds over the years from 1987 to 2014. Work programs involved geophysical surveys, geochemical sampling, aircore drilling, Bauer drilling and bulk sampling. It recently announced the acquisition of ground around the Ellendale 9 Mine, believing this to be prospective for undiscovered diamondiferous lamproite pipes.

POZ's E9 North alluvial project covers a series of channels draining to the north of the E9 mine. These channels were mined by Blina Diamonds with the western channel yielding 13,846 carats from 81,263 tonnes, being a recovered grade of 16.5 cph. The average size was 0.36 carats and the largest was 11.4 carats, being a fancy yellow.

The A channel alluvials located to the north for the E4 mine were shown by Blina Diamonds to lie on an irregular karstic limestone bed with strong potential for potholes and other bonanza grade trap sites. These are high priorities for POZ's exploration.

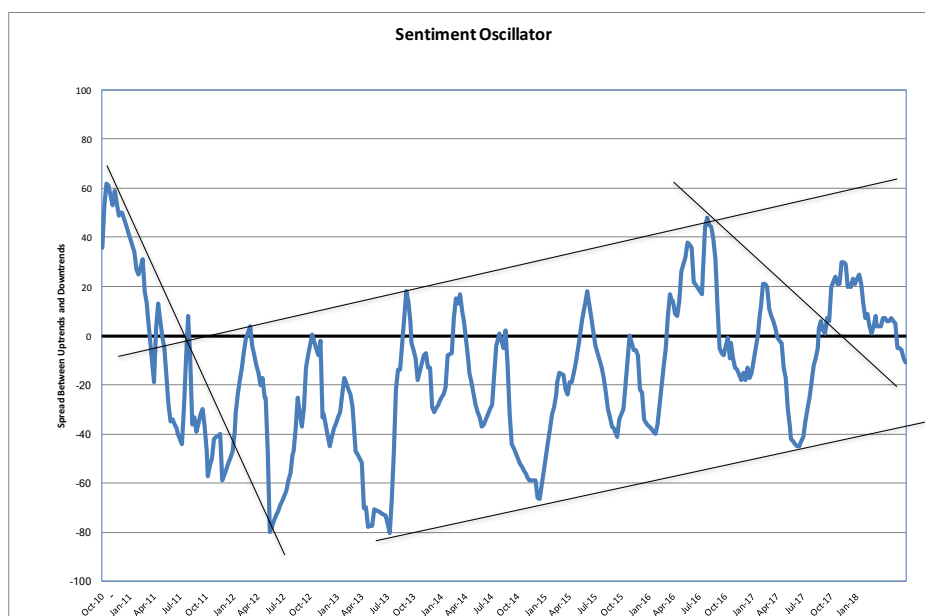
In recent months the company has been actively purchasing equipment used by previous operators in the region, including a 50 tph trommel, screens and Sortex diamond recovery units.

Alluvial diamond projects are not as highly revered as hard rock kimberlite projects but they can provide earlier cash flows at lower capex. There is more risk due to the variability of grade, but there can be pockets of high profitability.

What is the probability?

As with every mining sector boom it is very rare for a company to have enough success to proceed to

production. Broking analysts spend a great deal of time absorbing the promotion and trying to figure out which companies are truthful, competent and have a reasonable chance of success while the corporate departments and salesmen try their hardest to generate enthusiasm which can be converted to fees. If they can create some FOMO then it is “game on” ... until the music stops. Yet, there is always the chance that one or two mines could result, thereby justifying the enthusiasm.



Sentiment Indicator: Sentiment weakened further during the week but without much momentum; 35% (34%) of the charts were in uptrend and 44% (43%) 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	new high	
Metals and Mining	XMM	correcting	
Energy	XEJ	new high	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
Adriatic Resources	ADT	steep rise	zinc
Aeon Metals	AML	correcting below resistance line	copper + cobalt
Alacer Gold	AQG	back to recent highs	gold – production
Alkane Resources	ALK	breached long term support line	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Alchemy Resources	ALY	base forming	nickel, cobalt
Alicanto Minerals	AQI	down	gold exploration
Allegiance Coal	AHQ	holding LT uptrend	coal
Alliance Resources	AGS	continuing down	gold exploration
Altech Chemicals	ATC	holding on support line	industrial minerals - synthetic sapphire
Anova Metals	AWV	new low on poor production report	gold
Antipa Minerals	AZY	new low	gold




*This commentary is provided at no charge and in good faith from sources believed to be reliable and accurate. Far East Capital Ltd directors and employees do not accept liability for the results of any action taken on the basis of information provided or for any errors or omissions contained therein. Readers should seek investment advice from their professional advisors before acting on information contained therein. Please see **Disclosure of Conflicts of Interest** at the end of this commentary.*

Apollo Consolidated	AOP	down	gold exploration
Archer Exploration	AXE	breach of support	magnesite, graphite
Argent Minerals	ARD	down	polymetallic
Aurelia Metals	AMI	new high	gold + base metals
AusTin	ANW	levelling out	tin, cobalt
Australian Bauxite	ABX	but a new low	bauxite
Australian Potash	APC	new low	potash
Australian Mines	AUZ	down	cobalt/nickel
Australian Vanadium	AVL	at resistance line	vanadium
Azure Minerals	AZS	new low	silver
Bounty Coal	B2Y	recent listing	coal
BHP	BHP	back to support line	diversified
Base Resources	BSE	sideways through downtrend	mineral sands
Bathurst Resources	BRL	sideways	coal
Battery Minerals	BAT	collapse to new low	graphite
BBX Minerals	BBX	down	gold
Beach Energy	BPT	near highs	oil and gas
Beadell Resources	BDR	another new low	gold
Berkeley Energia	BKY	down	uranium
Berkut Minerals	BMT	new low	cobalt
Blackham Resources	BLK	sideways	gold
Blackstone Minerals	BSX	new low	gold, cobalt
Broken Hill Prospect.	BPL	down	minerals sands, cobalt
Buru Energy	BRU	off its high	oil
Cardinal Resources	CDV	testing uptrend, down	gold exploration
Cassini Resources	CZI	sideways	nickel/Cu expl.
Celsius Resources	CLA	breaching uptrend	copper/cobalt
Chalice Gold	CHN	heading lower	gold
Cobalt Blue	COB	breaching steep uptrend	cobalt
Comet Resources	CRL	free fall on study results	graphite/graphene
Crusader Resources	CAS	new low	gold/iron ore
Dacian Gold	DCN	holding LT uptrend	gold exploration
Danakali	DNK	testing downtrend	potash
Doray Minerals	DRM	trying to hold uptrend	gold
Draig Resources	DRG	down	gold
Eden Innovations	EDE	down	carbon nanotubes in concrete
Egan Street Resources	EGA	softer	gold
Emerald Resource	EMR	gentle downtrend	gold
Evolution Mining	EVN	new high	gold
Excelsior Gold	EXG	down	gold
FAR	FAR	uptrend emerging	oil/gas
First Cobalt	FCC	new low	cobalt
First Graphene	FGR	holding uptrend	graphite
Frontier Diamonds	FDX	new low	diamonds
Fortescue Metals	FMG	rallied out of steepest, but still in LT downtrend	iron ore
Galaxy Resources	GXY	rising again	lithium
Galilee Energy	GLL	retaining uptrend	oil and gas, CBM
Gascoyne Resources	GCY	holding longer term uptrend	gold
Global Geoscience	GSC	on support line	lithium
Gold Road	GOR	new high	gold exploration
Golden Rim	GMR	new low	gold exploration
Graphex Mining	GPX	breaching downtrend	graphite
Heron Resources	HRR	downtrend persisting	zinc
Highfield Resources	HFR	down again	potash

This commentary is provided at no charge and in good faith from sources believed to be reliable and accurate. Far East Capital Ltd directors and employees do not accept liability for the results of any action taken on the basis of information provided or for any errors or omissions contained therein. Readers should seek investment advice from their professional advisors before acting on information contained therein. Please see **Disclosure of Conflicts of Interest** at the end of this commentary.

Highlands Pacific	HIG		back to support line	copper, nickel
Hillgrove Resources	HGO		sideways	copper
Iluka Resources	ILU		breached support line	mineral sands
Image Resources	IMA		resumed LT uptrend	mineral sands
Independence Group	IGO		on support line	gold, nickel
Jervois Mining	JVR		strong bounce	nickel/cobalt
Karoo Gas	KAR		new low	gas
Kasbah Resources	KAS		sideways	tin
Kibaran Resources	KNL		slump	graphite
Kin Mining	KIN		down heavily	gold
Legend Mining	LEG		strongly higher	exploration
Lepidico	LPD		testing downtrend	lithium
Lithium Australia	LIT		breached uptrend	lithium
Lucapa Diamond	LOM		breached downtrend	diamonds
Macphersons Res.	MRP		Spike though downtrend, then pullback	silver
Marmota	MEU		sideways	gold exploration
MetalsX	MLX		down again	tin, nickel
Metro Mining	MMI		fallen back to support	bauxite
Mincor Resources	MCR		breached uptrend	nickel
Mineral Deposits	MDL		strongly higher on takeover approach	mineral sands
Myanmar Minerals	MYL		downtrend breached	zinc
MZI Resources	MZI		bounced off low	mineral sands
Neometals	NMT		down	lithium
Northern Cobalt	N27		down again	cobalt
Northern Minerals	NTU		rallied back to resistance line	REE
Northern Star Res.	NST		off its high	gold
NTM Gold	NTM		continuing downtrend	gold
Oceana Gold	OGC		breached downtrend	gold
Oklo Resources	OKU		down	gold expl.
OreCorp	ORR		holding support	gold development
Orinoco Gold	OGX		down	gold development
Orocobre	ORE		secondary downtrend	lithium
Oz Minerals	OZL		continuing in uptrend	copper
Pacific American Coal	PAK		strong rise	coal, graphene
Pantoro	PNR		pullback	gold
Panoramic Res	PAN		new high	nickel
Peel Mining	PEX		downtrend confirmed	copper
Peninsula Energy	PEN		sideways through downtrend	uranium
Perseus Mining	PRU		breached downtrend	gold
Pilbara Minerals	PLS		rallying	lithium/tantalum
PNX Metals	PNX		lower	gold, silver, zinc
Polarex	PXX		down	polymetallic
Prodigy Gold	PRX		resting on support line	gold
Red5	RED		down	gold
Red River Resources	RVR		fallen to support line	zinc
Regis Resources	RRL		new high	gold
Resolute Mining	RSG		sfr	gold
RIO	RIO		back to highs	diversified
Salt Lake Potash	SO4		breached downtrend	potash
Saracen Minerals	SAR		new high	gold
St Barbara	SBM		strong	gold
Sandfire Resources	SFR		new high	copper
Santana Minerals	SMI		new low	silver
Santos	STO		off its high	oil/gas

This commentary is provided at no charge and in good faith from sources believed to be reliable and accurate. Far East Capital Ltd directors and employees do not accept liability for the results of any action taken on the basis of information provided or for any errors or omissions contained therein. Readers should seek investment advice from their professional advisors before acting on information contained therein. Please see **Disclosure of Conflicts of Interest** at the end of this commentary.

Sheffield Resources	SFX		rising again	mineral sands
Sino Gas & Energy	SEH		confirming uptrend	gas
Sipa Resources	SRI		sideways	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		new high	coal
Sundance Energy	SEA		testing uptrend	oil/gas
Syrah Resources	SYR		back to downtrend	graphite
Talga Resources	TLG		softer	graphene
Tanami Gold	TAM		slump	gold
Tiger Realm	TIG		back to lows	coal
Triton Minerals	TON		down	graphite
Troy Resources	TRY		uptrend breached	gold
Tyranna Resources	TYX		back to lows	gold exploration
Vango Mining	VAN		correcting	gold
Vector Resources	VEC		breached downtrend	gold
Vimy Resources	VMY		down	uranium
Volt Resources	VRC		down	graphite
West African Resources	WAF		breached downtrend	gold
Westwits	WWI		down	gold exploration/development
Western Areas	WSA		rising again	nickel
White Rock Minerals	WRM		new low	silver
Whitehaven Coal	WHC		new high	coal
WPG Resources	WPG		down again	gold
Wolf Minerals	WLF		sideways at lows	tungsten
Totals	33%	47	Uptrend	
	44%	63	Downtrend	
		142	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	33	23.2%	
Gold Exploration	15	10.6%	
Coal	10	7.0%	
Copper	9	6.3%	

Weightings of Sectors Represented in the Company Charts			
Graphite	9	6.3%	
Oil/Gas	8	5.6%	
Mineral Sands	7	4.9%	
Cobalt	7	4.9%	
Lithium	7	4.9%	
Zinc	6	4.2%	
Silver	5	3.5%	
Nickel	5	3.5%	
Potash/Phosphate	4	2.8%	
Uranium	3	2.1%	
Bauxite	2	1.4%	
Tin	3	2.1%	
Diamonds	3	2.1%	
Iron Ore	1	0.7%	
Other	5		
Total	142		

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 MacPhersons and Orinoco. 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 Blackstone Minerals, Broken Hill Prospecting, Cobalt Blue, First Graphene, Golden Rim, Lucapa Diamond Company, Orinoco Gold 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 2018.