

A week of gently improving sentiment

Reading the AFR on Friday morning, I saw a headline saying that the eight year bull market in equities is set to continue. The journalist must be talking about something different to the market we have been observing over the past 12 months, in mining equities.

However, we have started to see some improvement over the past week. The Metals and Mining Index has pushed through the downtrend line. While that doesn't mean clear sailing from here, it does suggest that the weight of selling seen over the last couple of months is being lifted. Unless there is a shot from left field to cause another round of selling, the focus will be on which stocks are going to lead the market back into positive territory again.

Sometimes, after a market rout, the best strategy is to find new "horses" to back; ones that are not full of stale bulls. This time around I would venture a different approach. The market hasn't collapse over the past six months. It has been more of a continuous selldown than a panic selling mode. Value has been lost, but not destroyed. Many value-based stories are still relevant, especially the gold companies that are progressing towards production. Just because the market has lost interest doesn't mean that they do not represent sound value, or even better value now that share prices have come down.

You need to be more cautious about other sectors though. Battery input materials still offer the most exciting upside but with so many players in this field, be it in lithium, graphite or cobalt, there will be many that have hitched themselves to the wagon just for the ride. We are still seeing a lot of fibbing coming from many of these companies. Outlandish promotional statements are being made left, right and centre, but without any hard facts to back up the statements. It seems the objective is not so much "continuous disclosure" but rather "continuous exposure". You need to look at what is being said and decide for yourself whether there is a factual basis for these statements, or whether it is just hype.

Dealing with the gold price movements

While gold is one of the best commodities for junior companies, the gold price itself is proving the most difficult metal for which to predict the price. Traditional fundamental analysis just doesn't work due to the ever-present ability for traders to short limitless quantities of gold. The power to change the direction of the gold price invariably lies with the shorters, at the margin, because the gold bulls usually have a bag full of gold already and have limited capacity to absorb onslaughts of short selling. Thus the gold market will always have to deal with aggressive shorters from time to time. Whenever the gold bulls get excited you should expect a dousing of expectations.

What does this mean going forward? Most likely it will be a game of snakes and ladders until such time as a serious buyer decides to take on the shorters. This is unlikely to be traders as they wouldn't have the longer term commitment

required. It could be a sovereign nation account where there is a fundamental desire to build gold reserves. There might even be events whereby the shorters are all forced to close out their shorts at one time, causing a scramble for gold as everyone covers, but this would most likely be a short term event.

The gold price is likely to stay range-bound for the foreseeable future, between US\$1,200 and US\$1,300/oz. Gold producers will continue to make good profits on many mines but there will always be marginal mines that fail for both geological and management reasons.

An example of fantasy in the graphite sector

The announcement of Lanka Graphite that it is expecting to commence production of vein graphite in Sri Lanka at the rate of 20 tonnes per month, lifting to 2,000 tpa, is nothing more than pure fantasy. The time frame required for approval of the Artisanal Mining Licence of six months is optimistic, given the way the government works in Sri Lanka, but that isn't the biggest problem with what it is forecasting; it is the geology.

The top 20-30m of the geology in Sri Lanka is generally oxidised. Vein graphite does exist in this horizon but it tends to be in very small structures that do not attain economic widths until the primary ore zone is reached, at 25-30m depths. You have to move a lot of waste material for each tonne of graphite you recover. Given the amount of rainfall that Sri Lanka experiences, open pit operations in a clay-rich regolith is going to be very sloppy. You would need a very large workforce using basic hand held tools. There is no way that Lanka will be able to meet its production targets under these conditions.

If Lanka were to achieve a production rate of 2,000 tpa it would be the largest graphite producer in Sri Lanka - larger than the well-established mines operated by the government and the German company - and these mines are working primary ground, not oxidised near surface pits.

One can assume that Artisanal Licences exist for the benefit of local miners, not foreign companies, as a matter of public policy. It would be curious if the Government of Sri Lanka granted one to an ASX-listed corporation. As you would expect, there are restrictions on what volumes can be mined, and the equipment that can be used. The Category A licences for which Lanka has applied limits the depth of drilling to less than 1.5m and the production volumes must be in the range of 100 to 600 m³ per month (it doesn't say whether this is saleable product or material moved). Significantly, no machinery is to be used. That seems to suggest that you can use picks and shovels, but not much else.

Apart from the technical and physical challenges, there is the financial challenge. As at 31 March, LGR's Appendix 5B showed a cash balance of \$472,000, with expectations of June quarter expenditure of \$303,000. That means that as of today, the cash balance is probably less than \$200,000.

There has to be a capital raising coming very soon. With a market capitalisation of less than \$4m, a 15% placement would only raise about \$0.5m, which doesn't get you very

far. Something more significant is required to fund the commencement of a commercial mining operation.

Sentiment Indicator: Sentiment improved slightly due to a few charts moving through their downtrends lines as selling pressure abated. There were 17% (18%) of the charts in uptrend and 58% (61%) in downtrend, comparing figures from mid May to the close of last week. The Oscillator shows a slight turn upwards. This might be the turnaround we are

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 | downtrend | |
| Metals and Mining | XMM | breached short term downtrend | |
| Energy | XEJ | short term downtrend | |
| Stocks | Code | Trend Comment (updated comments in bold) | Main Interest |
| ABM Resources | ABU | downtrend | gold |
| Aeon Metals | AML | sideways | copper + cobalt |
| Alacer Gold | AQG | falling from rally | gold – production |
| Alkane Resources | ALK | testing downtrend | gold, zirconia |
| Acacia Resources | AJC | Sideways at the bottom | coal |
| Aguia Resources | AGR | testing resistance line | phosphate |
| Alicanto Minerals | AQI | sideways at lows | gold exploration |
| Alliance Resources | AGS | sideways | gold exploration |
| Alltech Chemicals | ATC | down | industrial minerals |
| Anova Metals | AWV | down | gold |
| Antipa Minerals | AZY | short term uptrend started | gold |
| Apollo Consolidated | AOP | new low | gold exploration |
| Archer Exploration | AXE | continuing down | magnesite, graphite |
| Argent Minerals | ARD | sideways | polymetallic |
| Aspire Mining | AKM | down | coal |
| Atrum Coal | ATU | new low | coal |
| Aurelia Metals | AMI | down | gold + base metals |
| Auroch Minerals | AOU | down | exploration |
| Aus Tin | ANW | softer | tin, cobalt |
| Australian Bauxite | ABX | breached downtrend | bauxite |
| Australian Potash | APC | breaching uptrend | potash |
| Australian Mines | AUZ | testing downtrend | cobalt/nickel |
| Australian Vanadium | AVL | down | vanadium |
| Avanco Resources | AVB | down | copper |
| AWE | AWE | down again | oil and gas |
| Azure Minerals | AZS | sideways through downtrend | silver |
| BHP | BHP | risen to meet resistance line | diversified |
| Base Resources | BSE | breaching uptrend | mineral sands |
| Bathurst Resources | BRL | continuing higher | coal |
| Battery Minerals | BAT | down | graphite |
| Beach Energy | BPT | testing long term support | oil and gas |
| Beadell Resources | BDR | new low | gold |
| Berkeley Resources | BKY | risen to meet resistance line | uranium |

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| | | | | |
|---------------------------|-----|--|--|------------------------------|
| Berkut Minerals | BMT | | testing downtrend | cobalt |
| Blackham Resources | BLK | | testing downtrend | gold |
| Broken Hill Prospect. | BPL | | new low | minerals sands, cobalt |
| Buru Energy | BRU | | sideways at lows | oil |
| Canyon Resources | CAY | | new low | bauxite |
| Cardinal Resources | CDV | | breaching uptrend after placement | gold exploration |
| Carnegie Clean Energy | CCE | | testing uptrend | wave energy |
| Cassini Resources | CZI | | breached uptrend | nickel/Cu expl. |
| Chalice Gold | CHN | | holding uptrend | gold |
| Cobalt One | CO1 | | rally on change of name (from Equator) | cobalt |
| Cobalt Blue | COB | | down | cobalt |
| Comet Resources | CRL | | sideways near highs | graphite/graphene |
| Consolidated Zinc | CZL | | downtrend | zinc |
| Corizon Mining | CZN | | new low | cobalt |
| Crusader Resources | CAS | | breached downtrend | gold/iron ore |
| Dacian Gold | DCN | | breached downtrend | gold exploration |
| Danakali | DNK | | still in uptrend | potash |
| Doray Minerals | DRM | | back in downtrend | gold |
| Duketon Mining | DKM | | still in downtrend | nickel |
| Eden Innovations | EDE | | breached short term downtrend | carbon nanotubes in concrete |
| Energia Minerals | EMX | | fallen out of bed | zinc |
| Evolution Mining | EVN | | testing uptrend | gold |
| Excelsior Gold | EXG | | resumed uptrend | gold |
| Finders Resources | FND | | breached downtrend | copper |
| First Australian | FAR | | testing uptrend | oil/gas |
| First Graphite | FGR | | downtrend | graphite |
| Fortescue Metals | FMG | | new downtrend | iron ore |
| Galaxy Resources | GXY | | strong rise to meet resistance | lithium |
| Galilee Energy | GLL | | down | oil and gas, CBM |
| Gascoyne Resources | GCY | | breached uptrend | gold |
| Geopacific Res. Resources | GPR | | new low | copper/gold exp. |
| Global Geoscience | GSC | | correcting lower | lithium |
| Gold Road | GOR | | uptrend continuing | gold exploration |
| Graphex Mining | GPX | | back to low | graphite |
| Heron Resources | HRR | | drifting lower | zinc |
| Highfield Resources | HFR | | continuing down | potash |
| Highlands Pacific | HIG | | down | copper, nickel |
| Hillgrove Resources | HGO | | testing uptrend | copper |
| Iluka Resources | ILU | | surged higher | mineral sands |
| Image Resources | IMA | | testing uptrend | mineral sands |
| Independence | IGO | | stronger | gold, nickel |
| Intrepid Mines | IAU | | sideways | copper |
| Karoo Gas | KAR | | breached support line | gas |
| Kibaran Resources | KNL | | testing downtrend | graphite |
| Kin Mining | KIN | | surge on gold discovery announcement | gold |
| Legend Mining | LEG | | sideways | exploration |
| Lithium Australia | LIT | | secondary downtrend | lithium |
| Lucapa Diamond | LOM | | down | diamonds |
| Macphersons Res. | MRP | | downtrend | silver |
| Medusa Mining | MML | | downtrend | gold |
| MetalsX | MLX | | back into downtrend | tin, nickel |
| Metro Mining | MMI | | sideways to higher | bauxite |
| Mincor Resources | MCR | | breached downtrend | nickel |
| Mineral Deposits | MDL | | on support line | mineral sands |

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| | | | | |
|-----------------------|-----|---|--|--------------------|
| Mustang Resources | MUS |  | heavy fall | diamonds, rubies |
| MZI Resources | MZI |  | down | mineral sands |
| Northern Minerals | NTU |  | down | REE |
| Northern Star Res. | NST |  | rising | gold |
| NTM Gold | NTM |  | breached uptrend | gold |
| Oceana Gold | OGC |  | pullback within uptrend | gold |
| Oklo Resources | OKU |  | trying to break downtrend | gold expl. |
| OreCorp | ORR |  | down | gold development |
| Orinoco Gold | OGX |  | at lows | gold development |
| Orocobre | ORE |  | under longer term downtrend | lithium |
| Oz Minerals | OZL |  | testing downtrend | copper |
| Pacific American Coal | PAK |  | down | coal, graphene |
| Pantoro | PNR |  | new high | gold |
| Panoramic Res | PAN |  | downtrend | nickel |
| Paringa Resources | PNL |  | breached support line | coal |
| Peel Mining | PEX |  | pullback | copper |
| Peninsula Energy | PEN |  | down | uranium |
| Perseus Mining | PRU |  | new low | gold |
| Pilbara Minerals | PLS |  | heavy fall | lithium/tantalum |
| PNX Metals | PNX |  | down | gold, silver, zinc |
| Potash West | PWN |  | falling | potash |
| Red River Resources | RVR |  | holding longer term uptrend | zinc |
| Regis Resources | RRL |  | confirming uptrend | gold |
| Resolute Mining | RSG |  | testing short term downtrend | gold |
| Reward Minerals | RWD |  | testing downtrend | potash |
| RIO | RIO |  | recovery | diversified |
| RTG Mining | RTG |  | testing downtrend | copper/gold |
| Salt Lake Potash | SO4 |  | down | potash |
| Saracen Minerals | SAR |  | holding long term uptrend | gold |
| St Barbara | SBM |  | dipped below support, but then recovered | gold |
| Sandfire Resources | SFR |  | breached uptrend | copper |
| Santana Minerals | SMI |  | back in downtrend | silver |
| Santos | STO |  | under long term support line | oil/gas |
| Sheffield Resources | SFX |  | still in downtrend | mineral sands |
| Silver Lake Resources | SLR |  | heavy fall | gold |
| Silver Mines | SVL |  | down again | silver |
| Sino Gas & Energy | SEH |  | down | gas |
| Southern Gold | SAU |  | resuming uptrend | gold |
| Stanmore Coal | SMR |  | breaching long term support | coal |
| Sundance Energy | SEA |  | down | oil/gas |
| Syrah Resources | SYR |  | strong rise | graphite |
| Talga Resources | TLG |  | breached uptrend, but trying to recover | graphene |
| Tanami Gold | TAM |  | short term down | gold |
| Tempo Australia | TPP |  | breached downtrend | mining services |
| Teranga Gold | TGZ |  | strong rally | gold |
| Tiger Realm | TIG |  | down | coal |
| Tiger Resources | TGS |  | suspended | copper |
| TNG Resources | TNG |  | testing short term downtrend | titanium, vanadium |
| Torian Resources | TNR |  | downtrend | gold expl'n |
| Toro Energy | TOE |  | down | uranium |
| Troy Resources | TRY | | secondary downtrend | gold |
| Tyranna Resources | TYX | | down | gold exploration |
| Vango Mining | VAN | | uptrend | gold |
| Vimy Resources | VMY | | new low | uranium |

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| | | | | |
|------------------------|-----|---|--------------------|------------------------------|
| West African Resources | WAF |  | strong rise | gold |
| Westwits | WWI |  | slump | gold exploration/development |
| Western Areas | WSA |  | breached downtrend | nickel |
| White Rock Minerals | WRM |  | down | silver |
| Whitehaven Coal | WHC |  | breached downtrend | coal |
| WPG Resources | WPG |  | still down | gold |
| Wolf Minerals | WLF |  | down | tungsten |
| Totals | 17% | 25 | Uptrend | |
| | 58% | 85 | Downtrend | |
| | | 147 | 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 | 22.4% | |
| Copper | 12 | 8.2% | |
| Gold Exploration | 14 | 9.5% | |
| Coal | 10 | 6.8% | |
| Oil/Gas | 9 | 6.1% | |
| Potash/Phosphate | 7 | 4.8% | |
| Mineral Sands | 7 | 4.8% | |
| Graphite | 7 | 4.8% | |
| Silver | 6 | 4.1% | |
| Zinc | 6 | 4.1% | |
| Lithium | 5 | 3.4% | |
| Nickel | 5 | 3.4% | |
| Uranium | 4 | 2.7% | |
| Cobalt | 4 | 2.7% | |
| Tin | 2 | 1.4% | |
| Bauxite | 3 | 2.0% | |
| Diamonds | 2 | 1.4% | |
| Iron Ore | 1 | 0.7% | |

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Weightings of Sectors Represented in the Company Charts

| | | | |
|-------|------------|--|--|
| Other | 10 | | |
| Total | 147 | | |

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