

## Gold price is good but risk profiles are increasing in the sector

Three weeks have passed with since the last Weekly, with the most significant event in Australia being the Federal election. The return of the Coalition government was a surprise to most people. Even the optimists would have been satisfied with the minority government, but to achieve an outright majority was an unanticipated outcome. Hopefully now we can now look forward to more stability in government, which is a big step forward. Whether or not this gives us good government is an issue to monitor.

### *Gold to test US\$1,350/oz, again*

The gold sector has been the source of strong news flow recently. The gold price has been much better with RJO Futures stating that there is more than a 70% chance of an interest rate cut in the USA, by July. Pundits are predicting that gold is finally about to convincingly break through the US\$1,350/oz price, with US\$1,400/oz being achievable by Christmas. We have been here a number of times previously but on each occasion the momentum has run out of steam. Maybe this time it will be different.

On the company front the biggest news has been the collapse of the share price in Dacian Gold and the appointment of an administrator to Gascoyne Resources. Commissioning risk has reared its ugly head again.

We are also seeing more corporate deals as our producers seek to grow by acquisition rather than discovery and development, exposing shareholders to transactional and corporate risks. History shows that it is often the shareholders in the target company that do best out of these deals.

### *First, the Gascoyne gaffe*

Back in May 2018, Gascoyne Resources had a share price of 56¢ and a market capitalisation of \$234m. It was boasting that the 100,000 oz p.a. Dalgarranga gold mine development in WA was going through the commissioning stage and it was ahead of schedule and under-budget. By 25 July, the 2.5 mtpa capacity had been achieved, plant availability was +95% and gold recovery was quoted at 94%. Everything looked good, so why did the share price start to fall apart? Maybe it was the \$19m "oversubscribed" placement at 30¢ and a \$5m SPP announced on 20th August. What had happened to the \$32m cash position disclosed in May, and why was it raising money at a sub-optimum time?

On 17 September, an ASX release said that the operation was going well, but lower grade laterite ore was being processed ahead of the opening up of the oxide zones. This meant the head grade was only 0.8 gpt, but there was no change to the 25,000 oz guidance for the upcoming December quarter.

Unusual things started to happen in October. Two new directors were appointed, including Ian Murray as

chairman. Other directors announced they would be retiring. Within a couple of weeks the new chairman resigned, as did the CEO. Something didn't smell right.

On 28th November, the guidance was lowered to 17-18,000 oz for the quarter due to lower tonnages and grades with wet weather carrying some of the blame, but the real clue to future performance lay with the news that 33,000m of grade control drilling had been completed for use in a revised resource/reserve model. Why? Was the board concerned that the pre-production model was deficient? The share price had fallen to 9.2¢ at this juncture. The market was telling us that something was seriously wrong and that the ASX releases weren't telling the full story.

The real truth came out in the ASX release of 27 March 2019, disclosing that the problems lay in the mining of the orebody and the grade. The mill recovered grade from the Gilbeys pit was only 0.58 gpt in January and 0.61 gpt in February. Adding to the issues there were mechanical problems with the process plant. Guidance for the June half was reduced from 40-45,000 oz to 29-34,000 oz. The outlook was looking uncertain.

On 1 April 2019 (April Fools Day), Gascoyne announced a \$24.5m rescue package comprising a \$3.8m placement and a 4 for 5 non-renounceable underwritten rights issue to raise \$20.6m, all at 5¢ a share. At a 50% discount to the previous closing price, it seemed like a good deal; "*priced to clear*", as they say. Doh!

On 3 June 2019, Gascoyne announced the appointment of voluntary administrators and the shares were suspended from trading on the ASX. We await further news in order to better understand what went wrong.

### *Second, the Dacian debacle*

In Dacian's case it has been about significant downgrades in guidance for the Mt Morgan Gold mine. Rather than expecting June quarter production of 50-55,000 oz at AISC of A\$1,050-\$1,150/oz, it is now looking for 36-38,000 oz at A\$1,500-\$1600/oz. That is a revenue shortfall in the order of \$28-30m, while costs have gone up by \$16-17m, based on the revised guidance. It is going to be an ugly June quarterly report.

Back in July 2018, Dacian's share price was trading in the range of \$2.80 to \$3.00 a share. It undertook an SPP and an "oversubscribed" institutional placement that raised a combined \$48m at \$2.70 a share, but then the share price immediately slumped to spend the subsequent few months in the range of \$2.00-\$2.40. Just when the things seemed to be going better and the price had returned to the placement price in February 2019, the wheels started to wobble. The first downgrade came at the end of March, causing the acceleration of a downtrend that had commenced earlier that month. Then the wheels really fell

off at the end of May prior to the latest downgrade announcement. At Friday's close of 38¢, we have seen \$540m wiped off the market capitalisation, which is now only \$85m.

There was more than one reason for the second downgrade and its not for us to go into detailed analysis, but we should ask what will be the outcome of this disaster. Can the company survive such a blow or will it go down the path of Gascoyne? It will certainly need to raise more money but it is in a position of weakness here. Dacian has indicated that the control of the company may change through this process.

### *There will be collateral damage*

The gold industry could well do without these two disasters. They will have consequence for other emerging gold producers seeking finance as banks and institutions are going to take a step back from the sector for an indefinite period. Reputations of stockbrokers involved will take a beating, as will the reputations of technical personnel and consultants. Analysts will be the whipping boys but to be fair to them, the way the business works nowadays they are never allowed to be close enough to be able to discern the real truth until it is made public. There are no winners, though vultures might come in for some easy pickings.

### *Nothing is ever risk free*

Both Dacian and Gascoyne serve as recent examples of commissioning risk that I often refer to in this Weekly. Don't assume that going into production is automatically a path to profits. No matter how good the spreadsheet looks during the funding exercises, the true test happens when mining and processing commences and there is no room to back out. The institutional investors that come in for this stage of the company life cycle are often told that a project has been de-risked and that is why they should invest. Nothing could be further from the truth. Nothing is ever de-risked in this business. You just exchange one type of risk for another.

Personally, I prefer the high risk/high reward profile of exploration companies that are in the process of drilling out known mineralisation (as opposed to grass roots exploration). That is where you have had some positive drill results (not just one or two high grade intercepts), you have some idea of structure and dimension, and it is a process of seeing just how consistent and expandable the mineralisation really is. Many questions need to be addressed over a one to three year time frame but there is always a mood of optimism that can lead to a stronger share price if those answers continue to be positive. This is the real value accretion stage; taking moose pasture and turning it into valuable real estate.

### *Can our producers do smart corporate deals?*

As mentioned above, the gold price has been much stronger in recent days. That is good for the producers but we are at a very interesting juncture in the gold sector. Stock selection is important at the best of times, rather than just expecting to make money with the rising gold price, but if recent events are anything to go by, stock selection is even more critical as we see the bull market in gold producers maturing. While established producers are unlikely to suffer the baptism of fire that Dacian and Gascoyne have just experienced, there are other traps to be careful of.

Shareholders would have been pleased with the performance of the leading gold producers in 2018, as they concentrated on operations and generating profits, generally staying away from seeking growth through corporate activity. However, times seem to be changing.

Perhaps it was inevitable, but the quest for growth through corporate activity has reared its ugly head again. One of the best ways to destroy shareholders' wealth is by doing ill-considered corporate deals. Whether an acquisition is smart or dumb is always open to debate in the short term. Maybe the acquirer knows something that the general public doesn't, but history shows us that many companies shoot themselves in the foot by doing deals that turn out to be dogs.

### *St Barbara spending \$768m on a Canadian producer*

There have been two deals announced that will have shareholders scratching their heads. The first and most significant one is the announcement by St Barbara that it is buying Atlantic Gold at a cost of A\$768m cash. We won't go into much analysis here, but it is worth noting that Atlantic Gold used to be listed on the ASX. (ASX:ATV).

Back in 2009, Atlantic had 394 mill. shares on issue and a market capitalisation of around \$24m, based on the share price of 6¢. It seems like very good value but Australian investors weren't interested in a low grade gold project in Nova Scotia. Resources were quoted as 23.3 Mt at 1.6 gpt for 1.2 Moz, and Proved and Probable Reserves were 9.59 Mt at 1.48 gpt for 454,000 oz.

Atlantic delisted from the ASX in December 2014, following a merger with a Canadian company, Spur Ventures, associated with Steven Dean. Robert Champion de Crespigny and Steven Dean worked together back in the 1980s, in the Poseidon group of companies.

There has been a lot of water under the bridge since those days and Atlantic is not the same vehicle. For starters it has developed a 91,000 oz p.a. mine that currently has reserves of 1.9 Moz. Guidance costs are A\$740/oz (AISC). Production is forecast to grow to 200,000 oz p.a. by 2023.

Is this a smart deal? Time will tell, but judging by the movement in the share price, down 23% from when it announced the deal, the market is not yet a believer.

### *Pantoro buying into Norseman*

The second transaction is the Pantoro deal whereby it is buying 50% of the Central Norseman gold operations in a staged deal. It is paying \$10m cash and \$20m in Pantoro shares. A further \$15m cash is to be paid in the subsequent 24 month period, and Pantoro will fund the next \$50m of project expenditure. So, that looks like \$95m in acquisition costs. But wait, there is more! Pantoro has to pay a 1% NSR on its share of production, capped at \$6m, then a 0.0025% royalty (was this a typo?) for five years after the first \$6m has been paid.

The Central Norseman goldfield is historically one of the most famous high grade fields in Australia, having produced more than 5.5 Moz over a > 50 year life, mostly under the stewardship of Western Mining Corporation and related companies. However, since WMC sold out, its performance has been challenging for the various parties that have had ownership. It is now a mature asset that requires very large ongoing capital and development expenditure. Maybe the Pantoro team has the mining skills as it has done a good job up north, but does the team have

the depth of management to operate at Norseman as well? Does it have enough access to cash to fund the high levels of development required? If it does, and if it has what it takes to make Norseman hum again, it only has 50% of the upside while it will be doing 50% of the heavy lifting. It would have been much smarter to have set a price for an option on a 100% takeout at some later point.

It will take a year or two before we really know whether Norseman assets are worth what is being paid, but the market has little patience for this length of time. Rather than looking forward to getting dividends from the Nicholsons Gold Project, shareholders now have to wait nervously to see if this deal works out. The risk profile has been amplified.

*Disclosure: Interests associated with the author have been long term shareholders in Pantoro, but the position is now under review.*

### Rare earth story is gathering momentum

The escalating trade war is having a very positive impact on rare earth companies with this being the one sector that is heading higher, without any doubt. We have been a strong advocate of Peak Resources for its NdPr credentials, having written it up in 2018. The PEK share price has increased by 300% since January, without any sign of it topping out yet. A second NdPr company we mentioned is Pensana (PM8). Its share price has only doubled, but now that it has placed \$5m at 2¢ the share price may continue higher (so long as the places are not flippers).

The leader of the pack, Lynas, has surged to new highs and thrown off the unwanted approach from Westfarmers.

The market for rare earths is thin, not just for the products but for the shares as well. So, it is rather specialised. There is no short term supply response that could kill the market,

like we saw with cobalt, and no prospect of longer term oversupply that is a constant fear with lithium. It continues to look very interesting.

*Disclosure: Interests associated with the author are shareholders in Peak Resources and Pensana.*

### West African site visit

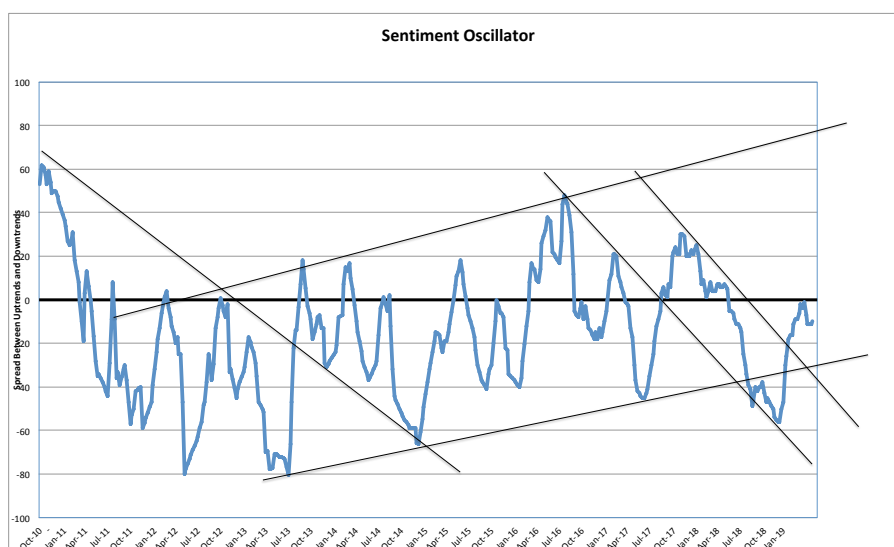
Last week I went to Cote D'Ivoire to visit two companies; Exore Resources (ERX) and Perseus Mining (PRU). We have previously mentioned Exore as a promising new gold exploration company capitalised at \$34m with about \$12m in the bank. Perseus was one of the first Australian companies into West Africa over 10 years ago, commissioning the > 200,000 oz p.a. Edikan Gold Mine in 2011. It now has a production target of 500,000 oz p.a. from the Edikan, Sissinguè and Yaoure gold mines, with the latter being about two years away from production.

Exore is at the start of its journey, while Perseus has been there and done that, and is continuing to grow. Its history is somewhat instructive.

This edition Weekly is already rather long, so we will hold back on Exore and Perseus until next week.

*Disclosure: Interests associated with the author are shareholders in Exore Resources.*

We have deleted Comet Resources, Eden Innovations, and Gascoyne from chart coverage, and added two exploration stocks; Buxton Resources (BUX), Ni/Cu/Au exploration in WA, and Chesser Resources (CHZ), gold in Senegal).














































**Sentiment Oscillator:** Sentiment is a little better than it was three weeks ago. There were 28% (24%) of the charts in uptrend and 37% (35%) 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	correction within a rising wedge	
Metals and Mining	XMM	correction could be testing uptrend	
Energy	XEJ	back to LT uptrend, at apex of wedge	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
Adriatic Resources	ADT	rising but on shallower line	zinc
Aeon Metals	AML	back in downtrend	copper + cobalt
Alacer Gold	AQG	at high	gold – production
Alkane Resources	ALK	stronger on rare earth thematic	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Alchemy Resources	ALY	sideways near lows	nickel, cobalt
Alicanto Minerals	AQI	rising	gold exploration
Allegiance Coal	AHQ	new high	coal
Alliance Resources	AGS	still down	gold exploration
Altech Chemicals	ATC	sideways after breaching uptrend	industrial minerals - synthetic sapphire
Apollo Consolidated	AOP	still in wedge	gold exploration
Argent Minerals	ARD	back to lows after placement	silver
Aurelia Metals	AMI	still falling	gold + base metals
AusTin	ANW	sideways at lows	tin, cobalt
Australian Bauxite	ABX	sideways	bauxite
Australian Potash	APC	breached support line	potash
Australian Mines	AUZ	strong rise, but heavy pullback	cobalt/nickel
Australian Vanadium	AVL	new low	vanadium
BHP	BHP	correcting lower	diversified, iron ore
Base Resources	BSE	pullback	mineral sands
Bathurst Resources	BRL	sideways	coal
Battery Minerals	BAT	new low	graphite
BBX Minerals	BBX	pullback	gold exploration
Beach Energy	BPT	breached uptrend	oil and gas
Bellevue Gold	BGL	near high	gold exploration
Berkeley Energia	BKY	in secondary downtrend	uranium
Blackstone Minerals	BSX	back to lows	gold, cobalt
Bounty Coal	B2Y	rallying	coal
Breaker Resources	BRB	testing uptrend	gold exploration
Broken Hill Prospecting	BPL	off its lows	minerals sands
Buru Energy	BRU	new uptrend	oil
Buxton Resources	BUX	testing downtrend	nickel exploration
Cardinal Resources	CDV	new low	gold exploration
Cassini Resources	CZI	consolidating	nickel/Cu expl.
Celsius Resources	CLA	strong recovery	copper/cobalt




Chalice Gold	CHN		drifting lower	gold exploration
Chesser Resources	CHZ		surged out of downtrend, then heavy pullback	gold exploration
Cobalt Blue	COB		off its lows	cobalt
Dacian Gold	DCN		collapse on operations update	gold
Danakali	DNK		sideways	potash
Davenport Resources	DAV		down	potash
Egan Street Resources	EGA		risen to meet resistance line	gold
Emerald Resource	EMR		sideways	gold
Evolution Mining	EVN		testing downtrend	gold
Exore Resources	ERX		sideways	gold exploration
FAR	FAR		sideways at lows	oil/gas
First Graphene	FGR		spiked to new high on NICNAS, correcting now	graphene
Fortescue Metals	FMG		pullback	iron ore
Galaxy Resources	GXY		new low	lithium
Galena Mining	G1A		consolidating near highs	lead
Galilee Energy	GLL		new high	oil and gas, CBM
Gold Road	GOR		rising	gold
Golden Rim	GMR		new low	gold exploration
Graphex Mining	GPX		continuing in uptrend	graphite
Heron Resources	HRR		breaching downtrend	zinc
Highfield Resources	HFR		surge to new high on Environmental Permit	potash
Hillgrove Resources	HGO		sideways	copper
Hipo Resources	HIP		at lows	battery metals
Iluka Resources	ILU		stronger	mineral sands
Image Resources	IMA		higher	mineral sands
Independence Group	IGO		breached uptrend	gold, nickel
ioneer (was Global Geoscience)	INR		testing downtrend, then pullback	lithium
Jervois Mining	JVR		testing uptrend	nickel/cobalt
Jindalee Resources	JRL		start of a new uptrend	lithium
Karoo Gas	KAR		breached new uptrend	gas
Kasbah Resources	KAS		breached new uptrend	tin
Kibaran Resources	KNL		new uptrend forming	graphite
Kin Mining	KIN		sideways	gold
Legend Mining	LEG		sideways to lower	nickel exploration
Lepidico	LPD		breached uptrend	lithium
Lithium Australia	LIT		continuing downtrend	lithium
Lucapa Diamond	LOM		continuing downtrend	diamonds
Lynas Corp.	LYC		surge on rare earth thematic	rare earths
Mako Gold	MKG		back to lows	gold exploration
Marmota	MEU		sideways	gold exploration
MetalsX	MLX		breached downtrend	tin, nickel
Metro Mining	MMI		sideways	bauxite
Mincor Resources	MCR		new uptrend forming	gold
Musgrave Minerals	MGV		down	gold exploration

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Myanmar Minerals	MYL	uptrend being tested	zinc
Nelson Resources	NES	strong rally	gold exploration
Neometals	NMT	testing downtrend	lithium
Northern Cobalt	N27	down again	cobalt
Northern Minerals	NTU	surged to reach resistance line	REE
Northern Star Res.	NST	in downtrend now	gold
NTM Gold	NTM	gentle downtrend	gold exploration
Oceana Gold	OGC	down	gold
Oklo Resources	OKU	bounce from lows	gold expl.
Orecorp	ORR	correcting back to support line	gold development
Orocobre	ORE	sideways	lithium
Oz Minerals	OZL	correcting lower	copper
Pacific American Coal	PAK	at lows	coal
Pantoro	PNR	testing support line	gold
Panoramic Res	PAN	down	gold , nickel
Peak Resources	PEK	surging to new high	rare earths
Peel Mining	PEX	still down	copper
Peninsula Energy	PEN	tracing back to resistance/support line	uranium
Pensana Metals	PM8	surge to high	rare earths
Perseus Mining	PRU	rising	gold
Pilbara Minerals	PLS	testing downtrend	lithium
PNX Metals	PNX	lower	gold, silver, zinc
Polarex	PXX	surge higher	polymetallic exploration
Prodigy Gold	PRX	rising	gold exploration
Ramelius Resources	RMS	hugging uptrend	gold production
Real Energy	RLE	back to lows	gas
Red5	RED	new high	gold
Red River Resources	RVR	pullback after breaching downtrend	zinc
Regis Resources	RRL	fallen to support, and now testing it	gold
Resolute Mining	RSG	sideways through uptrend line	gold
RIO	RIO	off its highs	diversified, iron ore
Salt Lake Potash	SO4	breaching downtrend	potash
Saracen Minerals	SAR	surged higher	gold
St Barbara	SBM	collapse	gold
Sandfire Resources	SFR	down	copper
Santos	STO	into uptrend	oil/gas
Sheffield Resources	SFX	back to lows	mineral sands
St George Mining	SGQ	down	nickel
Sipa Resources	SRI	recovered, to sideways pattern	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR	new high	coal
Strandline Resources	STA	new uptrend	mineral sands
Sundance Energy	SEA	heading lower	oil/gas
Syrah Resources	SYR	rallying	graphite
Talga Resources	TLG	breached uptrend	graphite

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Technology Metals	TMT		short term down	vanadium
Tiger Realm	TIG		surged higher, at resistance line	coal
Triton Minerals	TON		breached secondary downtrend	graphite
Troy Resources	TRY		bounced off its lows	gold
Vango Mining	VAN		breached downtrend	gold
Vector Resources	VEC		suspended	gold
Venturex	VXR		down	zinc
Vimy Resources	VMY		new uptrend breached	uranium
Volt Resources	VRC		down	graphite
West African Resources	WAF		struggling around resistance line	gold
Westwits	WWI		down	gold
Western Areas	WSA		ST uptrend breached	nickel
Whitebark Energy	WBE		sideways	oil and gas
Whitehaven Coal	WHC		down	coal
Yandal Resources	YRL		sideways	gold exploration
Totals	28%	38	Uptrend	
	37%	51	Downtrend	
		138	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	30	21.7%	
Gold Exploration	19	13.8%	
Oil/Gas	9	6.5%	
Graphite	7	5.1%	
Nickel	9	6.5%	
Coal	8	5.8%	
Lithium	8	5.8%	
Mineral Sands	6	4.3%	

Zinc/Lead	6	4.3%	
Potash/Phosphate	5	3.6%	
Copper	5	3.6%	
Cobalt	4	2.9%	
Rare Earths	4	2.9%	
Tin	3	2.2%	
Iron Ore	3	2.2%	
Uranium	3	2.2%	
Bauxite	2	1.4%	
Vanadium	2	1.4%	
Silver	1	0.7%	
Diamonds	1	0.7%	
Other	3		
Total	138		

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