FAR EAST CAPITAL LIMITED
Suite 24, Level 6, 259 Clarence Street
SYDNEY NSW AUSTRALIA 2000
Tel : +61-2-9230 1930 Mob: +61 417 863187
Email : wgrigor@fareastcapital.com.au
AFS Licence No. 253003 ACN 068 838 193

FAR EAST CAPITAL
The Mining Investment Experts

Weekly Commentary

8 October 2016 *On Friday's Close* Analyst : Warwick Grigor

Bullion takes a bollocking, the largest graphite stock nose dives and money is moving into oil (and coal)

Taking the pain of the selldown

There was starting to be an element of despair about the market for golds and smaller mining stocks this week, typical of what happens when a healthy pullback becomes a correction, and then degenerates into a selldown. Traders in particular start to demand answers from advisors and companies and the brokers start to take on the role of grief councillors, but it is just how markets work. There is nothing to be stressing about, in most cases.

The fall in the gold price on Tuesday evening in New York was something of a mystery. Is it the debate about interest rates of the performance of Donald Trump in the polls which is more influential at the moment? Or, is it simply the case that gold has exhausted its efforts to move higher, so that it was vulnerable to a spike down on aggressive traders trying to move the market one way or the other? Having been crunched down the next question confronting traders is whether or not it has come down far enough to encourage buying. We can never be certain.

With this level of uncertainty it is a good idea to have a look at your gold stocks and decide which ones you are holding for simple exposure to the gold price, and which gold stocks offer something more. I always advocate growth stocks in the gold sector rather than steady state producers. By growth, I don't mean incremental growth which most of the largest companies will always be focusing on. I mean new project developments and recently commissioned mines that have proved themselves and are now going through significant increases in production.

However, be careful of those new mines, particularly the technically difficult ones that are still in the delicate stage of trying to make everything work. These can be identified by spasmodic news flow and more disturbingly, no news flow. More often than not they are underground developments that are never really understood until many months into the development phase. These mines are vulnerable to interruptions due to unexpected adverse ground conditions, excessive dilution and tight working capital. They often need further injections of capital to get them over the hurdles. The market can be savage in these scenarios.

A recent example for this was Pacific Nuigini (PNR) (now Pantoro) when it hit greater levels of unstable ground as it was developing its decline a year ago. It was forced to undergo an issue to shareholders at a big discount to the market. Fortunately for PNR's shareholders the subsequent mine development work has been very successful and the future looks very promising, but it is proof that success is not always instant.

Another example is Orinoco Gold (OGX), which is currently ramping up a high grade gold mine in Brazil. After sparse news flow the company brought out an update yesterday that didn't please the market, resulting in the shares being crunched lower. It may be that this is just the standard scenario with teething problems that will eventually be overcome, but the market still punishes situations like these when there is anything less than good news.

Leading indices looking better

If you look at the charts for the Metals and Mining and the Energy indices you would be feeling more positive about the market, notwithstanding the sloppiness of individual stock prices. This means that the larger institutional size stocks are being better supported. In the rush to get set in the first half of 2016, many institutions were slow off the mark and didn't achieve their desired portfolio weightings in the sector. Add to that the better outlook for oil and you see the underlying trend is positive. There is no need to worry.

Troubles at Syrah? Quick exit by the MD leaves unanswered questions and a 22.8% fall in price

The Syrah share price fell 22.8% on Wednesday on \$55m worth of ASX trades, after having been down 26% at one point. Turnover on the ASX was \$55m. The reason was the surprise announcement that the Managing Director had resigned immediately. The chairman is to take over as executive chairman while a new MD is sought.

While the ASX release was reasonably diplomatic it reads as if there was some frog-marching going on. It wasn't a planned event and it obviously occurred as a result of differences of opinion. However, whatever the real reasons, this could have implications for more than Syrah alone. When a company plays a dominant role in a sector, as Syrah has done for the emerging graphite sector, there will always be the risk of collateral damage to other flake graphite players. We will watch and learn and see what else comes to surface. Getting the real story takes some digging but I am sure it is going to get more interesting.

When promotions and perception exceed reality

You will always find stocks in the market where the rhetoric bears no resemblance to the reality. It never ceases to amaze me how many people fall for these stocks, quoting the phrase that "perception is the reality". Well, if you are happy with self delusion, go ahead and follow the Pied Piper, but you will be sadly disappointed if you think that he will take you to great fortune.

One such stock that comes to mind in this regard is Hexagon (HXG). I'm having clients ring me to tell me how well HXG has performed, having risen from 8¢ in June to 25¢ this week, with the real strength occurring whilst everything else has been in a correction mode. That sounds good, but don't forget that prior to this the shares peaked at 98¢ in July 2014, when they were called Lamboo Resources. They subsequently tumbled to a low of 4.7¢, being a 95% fall, at at time when graphite was the hottest sector in the market.

It is generally accepted that flake size is an important factor in supplying graphite to the market, but flakiness has a different meaning in the context of Lamboo/Hexagon. Going back to April 2015, Lamboo announced a positive Conceptual Study for its McIntosh Graphite Project in WA. At the time it seemed a convenient way to get around the more stringent requirements that the ASX imposes before a scoping study can be released, though Lamboo correctly stated in the release that there was "*no assurance of an economic development case*" as it was based on exploration targets.

It should also be noted that in September 2014, Lamboo was forced to retract an earlier Scoping Study, released in June 2014, which relied on 91% inferred mineral resources. It had also announced a binding offtake agreement with China Sciences Hengda Graphite Co and a supply agreement with China Rail. Was it really binding? How could it possibly be binding when there was so much uncertainty? (I seem to recall that ASIC took exception to a statement like this made by Fortescue, which led to a six year court case).

Lamboo announced an intention to merge with Hengda but something went wrong here, after Lamboo had paid across US$2m to a Chinese party. In March 2015, Lamboo announced that it had an agreement with that party to repay the US$2m in instalments. In May 2015, there was a default on the first payment, and another default was announced in June. The subsequent annual report disclosed that there had been no recovery of the funds and that $1m had also been spent on due diligence activities relating to Hengda. Foolishly, the accounting guidelines led to an unrealised foreign exchange gain of $383,905 being recognised on the same US$2m that was being written-off. Figure that one out.

So, in June 2014 Lamboo announced a positive scoping study. In April 2015, this was downgraded to a positive conceptual study. What has happened since then on the technical front?

There has been some successful diamond drilling in July 2015. First pass metallurgical test results, released in August, was conducted on diamond drill core. Results were good, but not exceptional if compared with what other graphite companies have been reporting. The description of the methodology as "simple flotation and gravity methods" in the highlights of the ASX release is a dumbing down of what was really required. Read further into the release and you see that the process involved a primary grind, a rougher float stage, two stages of polishing grind and four cleaner flotation stages. That seems a little more than "simple" to me.

An update on metallurgical tests (100-200 kg) was made in November 2015. While they were described as exceptional, and the deposit was described as unique, there are quite a few other companies that have been reporting results equally as good, or better. So where does the exception and the uniqueness come into to it?

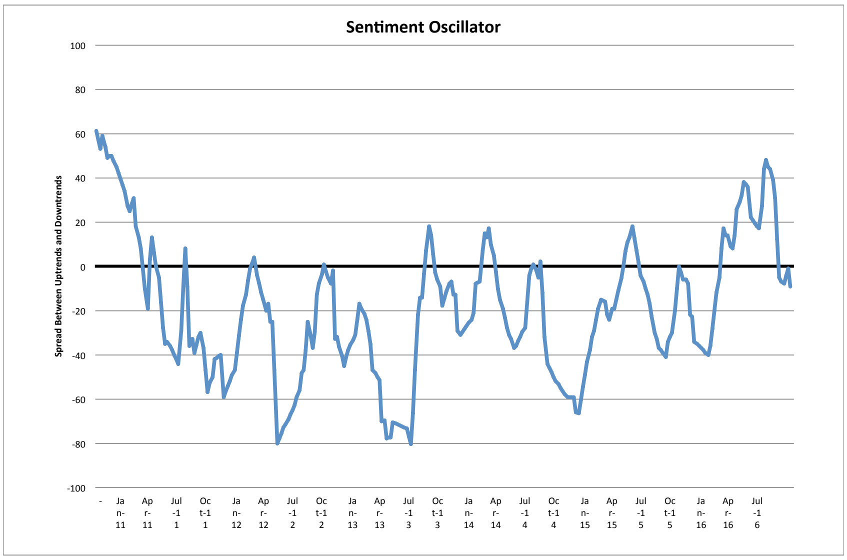
In March 2016, a pre-feasibility study commenced under the new name of Hexagon Resources. In May 2016, the company made an ASX release claiming it could make graphene from its "*ultra-high grade graphite (+99.9% TC)*". That it could make graphene is not an issue, as graphene can be made, to a lesser or greater extent, from any graphite concentrate. What is a problem though is that the release was written without stating that the feedstock was a graphite concentrate, not a graphite ore. It was written to make readers think that the graphite is very pure when in reality, at a grade of around 5% in-situ, it is one of the lowest grade graphite deposits being promoted. It is misleading to leave out the work "concentrate" on the front page. Pushing that word out to page two of the release provides no absolution.

Hexagon released an update to the pre-feasibility in June 2016, disclosing a Stage 1 optimised open pit of 17.2 Mt at 4.63% TGC, with 45% being in the Indicated category. While it may well be the largest flake graphite resource in Australia, it is a tiddler compared to those being progressed in Africa and its grade is significantly lower.

So, back to the share price of Hexagon. Yes, it has performed well and for that the shareholders will be grateful, but is this an exceptional graphite stock that can continue to deliver? It is a long way behind the pack with respect to feasibility studies, technical certainty and grade. Its best feature, being the apparently low level of contaminants in the ore and concentrates will be useful, but there will be other projects out there with similar qualities. Will it be able to present itself as a better, quality supplier to the battery industry?

Battery producers can choose from dozens of potential suppliers of graphite for the spheroidising plants. Just being able to supply a technically suitable graphite concentrate is only part of the story. How much does it cost to get to this point? There is stiff competition out there. Investors should maintain a degree of scepticism when they read any announcements made by the graphite companies especially when they are designed to sculpture perceptions. Actual delivery is the only reliable measure. Until that point everything else is speculation that offers the potential to either win or lose money. *STOP PRESS: The announcement on 6/10/16, doesn't alter the above views.*

We have added Whitehaven Coal (WCH) to the chart coverage. This is an institutional coal stock that has done exceptionally well over the past six months. This has been the strongest performer but other coal stocks are starting to attract attention e.g. Antrum, Bathurst Coal and Pacific American Coal.



Sentiment Indicator: Net sentiment last week was worse as a result of the fall in the gold stocks, but the number of charts in uptrend remained the same. A number of the gold stocks that were previous in the amber mode declined into downtrends. Last week there were 29% (29%) of the stocks in uptrend and 38% (32%) in downtrend.

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		through resistance line	
Metals and Mining	XMM		rising again	
Energy	XEJ		strongly higher	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
ABM Resources	ABU		breaching downtrend	gold
Aeon Metals	AML		off its highs	copper + cobalt
Alacer Gold	AQG		correcting lower	gold – production
Alkane Resources	ALK		pullback	gold, zirconia
Acacia Resources	AJC		Sideways at the bottom	coal
Aguia Resources	AGR		ticking higher	phosphate
Alicanto Minerals	AQI		heavy correction	gold exploration
Altlech Chemicals	ATC		down	industrial minerals
Anova Metals	AWV		new high	gold
Antipa Minerals	AZY		testing downtrend	gold
Archer Exploration	AXE		downtrend	graphite
Argent Minerals	ARD		breaching uptrend	polymetallic
Atrum Coal	ATU		heavy pullback	coal
Aurelia Metals	AMI		short term down	gold + base metals
Auroch Minerals	AOU		rallied to meet resistance line	exploration
Aus Tin	ANW		breached uptrend	tin, cobalt
Australian Bauxite	ABX		turned down at resistance	bauxite
Australian Vanadium	AVL		downtrend	vanadium
Avanco Resources	AVB		rallying from lows	copper
AWE	AWE		Breaching downtrend	oil and gas
Azure Minerals	AZS		rallying	silver
BHP	BHP		strongly higher	diversified

Base Resources	BSE		sideways to higher	mineral sands
Beach Energy	BPT		breached downtrend	oil and gas
Beadell Resources	BDR		testing uptrend	gold
Berkeley Resources	BKY		new high	uranium
Blackham Resources	BLK		testing support line	gold
Broken Hill Prospect.	BPL		lower	minerals sands, cobalt
Buru Energy	BRU		sideways	oil
Canyon Resources	CAY		down	bauxite
Cardinal Resources	CDV		new high	gold exploration
Carnegie Wave	CWE		downtrend being tested	wave energy
Cassini Resources	CZI		stronger	nickel/Cu expl.
Chalice Gold	CHN		new high	gold
Consolidated Zinc	CZL		sideways at lows	zinc
Coventry Resources	CYY		ST down	copper
Crusader Resources	CAS		fallen through support line	gold/iron ore
Dacian Gold	DCN		testing uptrend	gold exploration
Danakali	DNK		breaching support	potash
De Grey	DEG		sideways	gold
Doray Minerals	DRM		down	gold
Duketon Mining	DKM		rallying	nickel
Eden Energy	EDE		falling again	carbon nanotubes in concrete
Energia Minerals	EMX		down	zinc
Evolution Mining	EVN		down heavily	gold
Excelsior Gold	EXG		back to lows	gold
First Australian	FAR		sideways	oil/gas
First Graphite	FGR		breached support line	graphite
Fortescue Metals	FMG		new high	iron ore
Galaxy Resources	GXY		heavy fall	lithium
Galilee Energy	GLL		breached downtrend	oil and gas, CBM
Gascoyne Resources	GCY		breaching support	gold
Geopacific Res. Resources	GPR		correcting lower	copper/gold exp.
Global Geoscience	GSC		heavy fall	lithium
Gold Road	GOR		breached uptrend	gold exploration
Goldphyre	GPH		short term down	potash,gold
Graphex Mining	GPX		down	graphite
Gryphon Minerals	GRY		new high on takeover bid	gold
Herron Resources	HRR		at highs	zinc
Highfield Resources	HFR		rallying	potash
Highlands Pacific	HIG		sideways around lows	copper, nickel
Hillgrove Resources	HGO		coming off high in a retracement	copper
Hot Chilli	HCH		testing downtrend	copper
Iluka Resources	ILU		rallying	mineral sands
Image Resources	IMA		down	mineral sands
Independence	IGO		rallying	gold, nickel
Intrepid Mines	IAU		sideways - 7¢ capital return proposed	copper
Karoon Gas	KAR		rise from lows	gas
Kibaran Resources	KNL		holding long term uptrend	graphite
Kin Mining	KIN		breached short term correction	gold
King Island Scheel.	KIS		new low	tungsten
Kingsgate Consol.	KCN		suspension	gold
Kingsrose Mining	KRM		rising off lows	gold
Legend Mining	LEG		breach of gentle dwontrend	exploration
Lithium Australia	LIT		downtrend	lithium
Lucapa Diamond	LOM		recapturing uptrend	diamonds
Macphersons Res.	MRP		sideways	silver
Manas Resources	MSR		rising	gold
Medusa Mining	MML		still in long term downtrend	gold
Metals of Africa	MTA		back to previous lows	zinc expl/graph.

MetalsX	MLX		breached support line	tin, gold
Metro Mining	MMI		correcting within uptrend	bauxite
Mincor Resources	MCR		fallen to support line	nickel
Mineral Deposits	MDL		rallying out of breached	mineral sands
Mustang Resources	MUS		short term uptrend started	diamonds, rubies
MZI Resources	MZI		breached uptrend	mineral sands
Northern Minerals	NTU		rising	REE
Northern Star Res.	NST		selldown	gold
Oceana Gold	OGC		down	gold
Oklo Resources	OKU		ST down	gold expl.
Orecorp	ORR		on support line	gold development
Orinoco Gold	OGX		down	gold development
Orocobre	ORE		down	lithium
Oz Minerals	OZL		testing uptrend	copper
Paladin Energy	PDN		down again	uranium
Pacific American Coal	PAK		breached uptrend	coal, graphene
Pantoro	PNR		breached steepest uptrend	gold
Panoramic Res	PAN		rising	nickel
Paringa Resources	PNL		strong recovery	coal
Peel Mining	PEX		gentle uptrend	copper
Peninsula Energy	PEN		falling again	uranium
Perseus Mining	PRU		breaching downtrend	gold
Pilbara Minerals	PLS		falling	lithium/tantalum
PNX Metals	PNX		strong surge	gold, silver, zinc
Potash West	PWN		falling	potash
Red River Resources	RVR		surge to new high	zinc
Regis Resources	RRL		testing uptrend	gold
Renaissance Min.	RNS		new high	gold
Resolute Mining	RSG		breached support line	gold
Reward Minerals	RWD		strong rise	potash
Rex Minerals	RXM		back to lows	copper
RIO	RIO		strongly higher	diversified
RTG Mining	RTG		breached support line	copper/gold
Rum Jungle	RUM		sideways	quartz
Salt Lake Potash	SO4		steeply higher	potash
Saracen Minerals	SAR		down	gold
St Barbara	SBM		down	gold
Sandfire Resources	SFR		stronger	copper
Santana Minerals	SMI		breached uptrend	silver
Santos	STO		bouncing	oil/gas
Sheffield Resources	SFX		fallen back to support	mineral sands
Silver City Minerals	SCI		down	base metals
Silver Lake Resources	SLR		down	gold
Silver Mines	SVL		down	silver
Sino Gas & Energy	SEH		sideways	gas
Southern Gold	SAU		uptrend continuing	gold
Sundance Energy	SEA		new uptrend confirmed	oil/gas
Syrah Resources	SYR		heavy fall	graphite
Talga Resources	TLG		down	graphene
Tanami Gold	TAM		new high	gold
Tiger Resources	TGS		back to lows	copper
TNG Resources	TNG		surge through resistance	titanium, vanadium
Torian Resources	TNR		down	gold expl'n
Toro Energy	TOE		downtrend	uranium
Troy Resources	TRY		secondary downtrend	gold
Tyranna Resources	TYX		pullback	gold exploration
Vimy Resources	VMY		down	uranium
West African Resources	WAF		rallying	gold

Westwits	WWI		breached ST downtrend	gold exploration/development
Western Areas	WSA		pullback	nickel
White Rock	WRM		down	silver
Whitehaven Coal	WHC		new high	coal
WPG Resources	WPG		improving following placement	gold
Wolf Minerals	WLF		continuing down	tungsten
Totals	29%	42	Uptrend	
	38%	55	Downtrend	
		143	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	37	25.9%	
Copper	14	9.8%	
Gold Exploration	11	7.7%	
Oil/Gas	9	6.3%	
Potash/Phosphate	7	4.9%	
Mineral Sands	7	4.9%	
Graphite	6	4.2%	
Zinc	7	4.9%	
Silver	6	4.2%	
Lithium	5	3.5%	
Nickel	5	3.5%	
Uranium	5	3.5%	
Coal	5	3.5%	
Tin	2	1.4%	
Bauxite	3	2.1%	
Iron Ore	1	0.7%	
Diamonds	2	1.4%	
Other	11		
Total	143		