FAR EAST CAPITAL LIMITED
Suite 24, Level 6, 259 Clarence Street
SYDNEY NSW AUSTRALIA 2000
Mobile Telephone: +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

9 December 2023 *Chart comments at Friday's close* Analyst : Warwick Grigor

Gold volatility is adding to trading opportunities

Looking around at all of the indicators and the recent performance of markets we can see that they are transitioning from the extended bear period in 2023, when the majority of people just wanted to exit equities. The worm is turning on the inflationary outlook and investors are setting themselves for the recovery market with cautious optimism being evident. No-one rings the bell at the top or the bottom of the market, but the signs suggest we are on the mend.

The gold price went on a tear on Monday, surging above US$2,100/oz for a brief period. Understandably, that led to some profit taking and a quick fall. No doubt you will be wondering if this was a blow-out high, or just an indication that the traders are becoming more active. The reality is that the percentage movements have been modest when compared with every other commodity, so a correction doesn't mean change on outlook. There continues to be much more substance in the gold story than all of the EV input materials. No-one really has a firm grip on the outlook or prices for what are essentially concept products.

Go for low grade gold if you want leverage

When we talk about leverage in the gold sector we can be talking about profit margins or gold value in the ground.

Notwithstanding the merits of high-grade gold deposits, and the adage "*grade is king*", the greatest leverage to the rising gold price is with very low-grade deposits such as those being advanced by Felix Gold (FXG) and Nova Minerals (NVA) in Alaska. What was previously considered marginal can suddenly become very profitable, at least on a spreadsheet. Likewise, high cost gold mines that were struggling can suddenly become profitable, courtesy of the better gold price.

Chasing the leverage is an aggressive approach used by traders and it can be very rewarding, but leverage works on the downside as well if the gold price falls and the rug is pulled out from underneath your feet. It is up to you and your risk preferences, and where you think the gold price is going, to decide where you should send your money. Personally, I have holdings in both.

The larger the gold resource in the ground the greater the leverage as well, as a gold resource is like money in the ground. Two companies that have very large gold resources in South Africa are Theta Gold Mines (TGM) and West Wits (WWI). Both of these companies have projects with in excess of four million ounces each. They have found raising development capital for projects in South Africa to be challenging but the in-situ value of the gold in the ground has been appreciating along with the gold price. Eventually the potential profit margin becomes so great that the financing will be made available and then the earnings power of the projects will dictate the share price.

Again, be careful of commissioning risks

I chuckle to myself when investors say "Exploration … no, that is too risky for me. Give me a real project where exploration risk has been surpassed." As I have said before, exploration is lower risk in the context of a stock market for one simple reason; a company can only lose what it has in the bank. Once this money runs out, the company can go on life support until the next round of capital raising.

However, once a company commits to the development of a project, no matter how good the feasibility study looks, there is no turning back. It is not until the project goes through the commissioning phase that the problems start to surface. Almost all projects have hiccups in the commissioning phase as the orebody is opened up and the grade reconciliation is put to the test. The treatment plants will always have teething issues. Sometimes it is a matter of fine tuning and repairing parts of the circuit that fail under initial throughput. That is procedural, but sometimes companies find that the process circuit is not fit for purpose and major alterations are required. That becomes serious.

Another issue for investors is that it usually takes quite a few months for a project's reporting system to spit out reliable data. As much as we might want to know early operating and costs statistics, reliable data only comes after a period of time. Up until then, it is a bit of a black hole.

While shareholders arc up about dilution leading into the commissioning phase, blinded by the optimism in the spreadsheet, it is foolish to commission a project with just enough money to make it work. You need surplus funds to account for unforeseen problems. If a company's budget is running tight, it might find itself issuing more shares at prices 50% or less of the pre-commissioning prices as the market gets nervous about what is really happening. It could be the start of a death spiral in the worst of cases. Look at Gascoyne's (now Spartan) Dalgaranga experience which was starting to look like a death sentence … until the Never Never high grade discovery.

Personally, if I'm invested in a company that has a very strong share price ahead of the commissioning, and if bravado is high, I would sell the share while demand is high and wait on the sidelines. It is very rare for a project to over-deliver in the first 6-12 months, so probabilities support my approach. I'd move the money into an earlier stage exploration/pre-development story that has higher perceived risk and less certain facts, but where there is room for optimism and greater leverage.

Nothing is risk free in the world of investments. You just swap one type of risk for another, at different phases of the market and the company life.

Disclosure: Interests associated with the author owns shares in Felix and West Wits..

… but we still use the term "de-risked", at times

Having said that, we sometimes describe a company or a project as de-risked. The term is relative and it is used in promotion, from time to time. One could use it with respect to **Lucapa Diamond Company (**LOM) given its achievements over the last five years. It continues to be one of the best operating diamond companies I have seen in 40 years, delivering amazingly large, high-quality diamonds that are sold for millions of dollars, but no one seems interested.

At the risk of boring you, I'll run through the broad parameters once again. The market capitalisation is $50m. Last week it announced that it is to receive US$10.1m in dividends and loan repayments from the Lulo operation in Angola, in 2024. That is A$15.5m, or 31% of the market capitalisation. The mine has been operating for a number of years, enabling Lucapa to report EBITDA in the range of $10-20m p.a. depending on annual production levels. There is no suggestion that these are exceptional years.

Exploration drilling news early this year showed an alluvial resource equal to that which has been mined since 2017, with diamonds worth US$350m in-situ. The objective is to keep adding to the resource base such that there will be a four year mine life, ad infinitum.

The second diamond mine in Lesotho has not been as successful, but it is washing its face and should continue operating strongly enough to repay the approximately $50m of loans owing to Lucapa's treasury. Note, this debt asset approximates the market capitalisation of the Company today, before considering the $15.5m about to return home.

There are two additional, less de-risked assets. One is the non-operating Merlin diamond mine in the Northern Territory. This is worth something, given Lucapa paid almost $10m for it, but its future viability is yet to be established. Nonetheless, there is a 4 mill. carat resource offering plenty of potential.

The second is an exploration asset, being the cluster of kimberlite pipes found in Angola upstream of the operating alluvial mine. All investigations point to these being the source of the diamonds currently being mined. We still don't know how big these will be but there is room for optimism. Evaluation of these pipes is on-going. As an exploration package they could easily be worth $10m or more, even at this early stage.

So, as an asset evaluation exercise, Lucapa doesn't seem to have much downside i.e. as they say, it is de-risked. Just how the shares perform in 2024 will depend upon how many buyers decide to take advantage of the opportunity. Personally, I am overweight in this stock in the hope that others will see the value too.

Disclosure: Interests associated with the author owns shares in Lucapa.

Update on silicon battery anodes

As we have been observing, the momentum is continuing to wane on EVs and the inputs generally. There has been the destruction of the lithium price, rare earths have halved in price and graphite has reverted back to being boring. These are all input materials, but what about battery technology itself?

What is happening with the companies that are claiming to have superior anodes, especially those working on silicon anodes that could potentially hold 10x the charge of graphite anodes? Are they making commercial progress, or are they still trying to prove their technology.

AnteoTech (ADO), one of the leaders in this field, has been on a roadshow last week. We drilled deeper to try and see through the opaqueness for which these stocks are renowned. Last April, we observed that ADO was focusing on the binders that are used to contain the components of silicon-based anodes to address the problem of premature disintegration. These binders facilitate particle dispersion, provide electrode homogenuity and give structural integrity to the conductive network.

ADO has increased the number of cycles from 200 earlier in the year, to 750-800 cycles now, whilst achieving 90% energy retention. Its highest quality anodes are using 70% silicon. If offers the potential to increase the range of EVs by 20%.

AnteoX - the proprietary product for batteries

ADO uses low grade, metallurgical silicon costing about $8/kg, from European suppliers. The silicon powder has been ground to sizes of less than 10 μm and is combined with a polymer binder in an aqueous solution that also includes carbon nanotubes. This fibrous network is the basis for the anode that spreads on a copper film that is used in the coin battery prototypes. Interestingly, the binder has enabled a 90% reduction in the amount of nanotubes used. The key ingredient is the AnteoX polymer.

AnteoTech has been working on this product for 5-6 years with a staff that currently total 14 people. By January it anticipates that it will be able to produce 20,000 litres for scaling up tests as the next step in moving from R & D to commercialisation. By mid 2024, a potential large scale customer is targeting a design freeze for its next generation of batteries.

AnteoX is a generic product that can be used in a wide range of batteries, from micro to macro in size, but each battery type may involve some element of custom design. At the moment its biggest selling point is that is can increase the energy density of batteries by 30-40% when combined with the silicon.

What could it be worth?

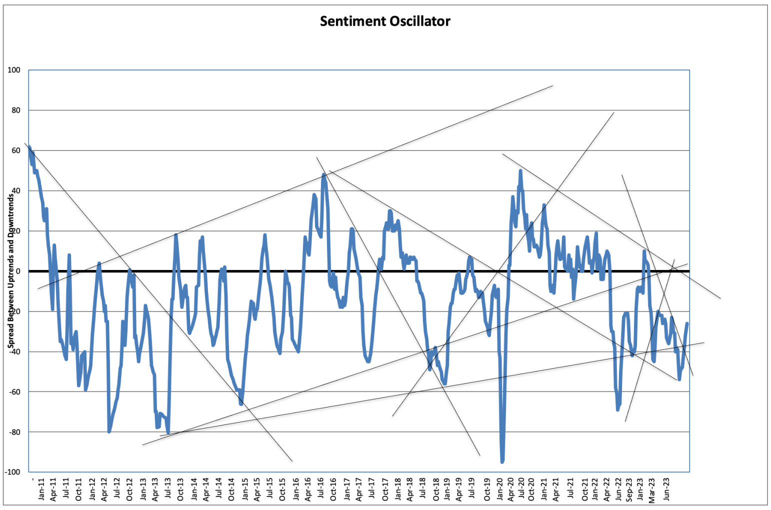
Anode developers are understandably cautious about making predictions on the potential profitability of their innovations, but that is exactly what investors need guidance on. I have worked out a few numbers that might assist.

Each EV could use 1-1.5 litres of AnteoX, at a price of, say $300/litre (which is a much lower cost than the competing product, by about 60%). If you take a typical German automobile manufacturer, making six million cars p.a. with half of them being EVs, that is a potential sale of > $900m p.a.. If the AntroTech product costs $200/litre to make, it leaves the potential for an operating margin of $600m p.a.

Now, this number is certain to be wrong, but it gives an order of magnitude to consider. How long will it take to secure a customer? Given how slowly new technologies are to be adopted, a short time fame of 1-2 years might be relevant. Much will depend upon discussion with the European companies over the next six months.

AnteoTech is also developing a biotech product known AnteoBind that offers significant productivity gains in the manufacturing of diagnostic products, but we will leave that story of another day.

We deleted Highfield Resources, Kalina Power and Megado Gold from the chart coverage.



Sentiment Oscillator: Sentiment continued to improved. There were 24% (22%) of stocks in uptrend and 50% (51%) in downtrend at the close of the week.

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		testing downtrend	
Metals and Mining	XMM		breached downtrend	
Energy	XEJ		continuing to fall	
Information Technology	XIJ		bouncing from lows	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
Aurora Energy Metals	1AE		down	uranium
5EA Advanced Materials	5EA		another new low	boron
92 Energy	92E		rising	uranium
Alpha HPA	A4N		strong recovery	HPA
Adriatic Resources	ADT		new high	zinc, polymetallic
Advance Metals (was Pacific American)	AVM		back to lows	coal, gold exploration
Aguia Resources	AGR		at lows	phosphate, copper exploration
Alkane Resources	ALK		down	gold
Alicanto Minerals	AQI		back to lows	base metals, silver, gold
Almonty Industries	AII		breached downtrend	tungsten
Altech Chemical	ATC		sideways	HPA, anodes

Alto Metals	AME		at lows with a placement	gold exploration
American Rare Earths	ARR		sideways	rare earths
Anax Metals	ANX		new low	copper
Anteotech	ADO		new low on placement	silicon anodes, biotech
Antilles Gold	AAU		new low	gold and copper expl.
Arafura Resources	ARU		new low	rare earths
Ardea Resources	ARL		secondary downtrend	nickel
Arizona Lithium	AZL		breached downtrend	lithium
Astral Resources	AAR		rising	gold
Aurelia Metals	AMI		breaching downtrend	gold + base metals
Australian Rare Earths	AR3		new low	rare earths
Australian Strategic Materials	ASM		strong rally	rare earths
Azure Minerals	AZS		another surge higher then pullback	nickel exploration
BHP	BHP		rising	diversified, iron ore
Barton Gold	BGD		rising	gold exploration
Beach Energy	BPT		breached uptrend	oil and gas
Bellevue Gold	BGL		new high	gold exploration
Black Cat Syndicate	BC8		steep rally	gold
BMG Resources	BMG		down	gold exploration
Boab Metals	BML		rising	silver/lead
Cadoux (was FYI)	CCM		testing steepest downtrend	HPA
Calidus Resources	CAI		testing downtrend	gold
Caravel Minerals	CVV		strong rally	copper
Carnaby Resources	CNB		breached downtrend	copper
Castile Resources	CST		back to lows	gold/copper/cobalt
Cazaly Resources	CAZ		back to downtrend	rare earths
Celsius Resources	CLA		sideways	copper
Cobalt Blue	COB		down again	cobalt
Cyprium Metals	CYM		forming a base	copper
Dateline	DTR		down	rare earths
Ecograf	EGR		turning down at resistance line	graphite
Emerald Resources	EMR		rising, new high	gold
Empire Energy	EEG		rising	gas
EQ Resources	EQR		breached uptrend	tungsten
Euro Manganese	EMN		testing downtrend	manganese
Evolution Energy	EV1		new low	graphite
Evolution Mining	EVN		rising again	gold
First Graphene	FGR		breached uptrend	graphene
Fortescue Metals	FMG		new high	iron ore
Galena Mining	G1A		new low	lead
Genesis Minerals	GMD		new high	gold
Genmin	GEN		suspended	iron ore
Gold 50	G50		down	gold exploration + gallium
Great Boulder Resources	GBR		new low	gold exploration

Group 6 Metals	G6M		down	tungsten
Hamelin Gold	HMG		testing downtrend	gold exploration
Hastings Technology Metals	HAS		back to lows	rare earths
Hazer Group	HZR		breached steepest downtrend	hydrogen
Heavy Minerals	HVY		down	garnet
Hillgrove Resources	HGO		rising gently	copper
Iluka Resources	ILU		heavy fall	mineral sands
ioneer (was Global Geoscience)	INR		down	lithium
Ionic Rare Earths	IXR		breached downtrend	rare earths
Jervois Mining	JVR		rising	nickel/cobalt
Jindalee Lithium	JLL		new low	lithium
Kaiser Reef	KAU		new low	gold
Krakatoa Resources	KTA		surge on lithium drilling	rare earths
Kingfisher Mining	KFM		breached downtrend	rare earths
Lepidico	LPD		improving	lithium
Lindian Resources	LIN		testing downtrend	rare earths + bauxite
Lion One Metals	LLO		surge out of downtrend	gold
Li-S Energy	LIS		new low	Lithium sulphur battery technology
LCL Resources	LCL		back to lows	gold exploration
Lotus Resources	LOT		rising	uranium
Lucapa Diamond	LOM		sideways	diamonds
Lunnon Metals	LM8		new low	nickel
Lynas Corp.	LYC		still down	rare earths
Marmota	MEU		surged higher	gold exploration
Matador Mining	MZZ		breached downtrend	gold exploration
Mayur Resources	MRL		back in uptrend	renewables, cement
Meeka Gold	MEK		down	gold
MetalsX	MLX		down	tin, nickel
Meteoric Resources	MEI		off its high	rare earths
Metro Mining	MMI		sideways	bauxite
Midas Minerals	MM1		slump	lithium
Nagambie Resources	NAG		breached downtrend	gold, antimony
Neometals	NMT		new low	lithium
Newfield Resources	NWF		down	diamonds
Northern Star Res.	NST		rising	gold
Nova Minerals	NVA		spiked higher	gold exploration
Pacific Gold	PGO		breached short term uptrend	gold exploration
Pantoro	PNR		breached downtrend	gold
Panoramic Res	PAN		suspended	nickel
Patriot Battery Metals	PMT		breached uptrend	lithium
Peak Resources	PEK		new low	rare earths
Peninsula Energy	PEN		collapse on $60m raising	uranium
Perseus Mining	PRU		rising again	gold
Poseidon Nickel	POS		collapse	nickel

Provaris Energy	PV1		turning down	hydrogen
QMines	QML		new low	copper
Queensland Pacific Metals	QPM		long term down	nickel/cobalt/HPA
RareX	REE		breached downtrend	rare earths, phosphate
Regis Resources	RRL		breached steepest downtrend	gold
Renergen	RLT		strong bounce from lows	gas, helium
Richmond Vanadium	RVT		heavy fall on release of escrowed shares	vanadium
RIO	RIO		rising again	diversified, iron ore
Rumble Resources	RTR		secondary downtrend	gold exploration
S2 Resources	S2R		sideways	gold exploration
Sandfire Resources	SFR		sideways through downtrend	copper
Santos	STO		weaker	oil/gas
Sarama Resources	SRR		at rock bottom	gold exploration
Sarytogan Graphite	SGA		new low	graphite
Siren Gold	SNG		new low	gold exploration
South Harz Potash	SHP		testing downtrend	potash
Southern Cross Gold	SXG		surge higher	gold exploration
Southern Palladium	SPD		breached downtrend	PGMs
Stanmore Coal	SMR		new high	coal
Strandline Resources	STA		suspended	mineral sands
Sunstone Metals	STM		meeting resistance line	gold/copper exploration
Suvo Strategic Minerals	SUV		sideways	kaolin
Talga Resources	TLG		down	graphite
Tamboran Resources	TBN		improving	gas
Technology Metals	TMT		down	vanadium
Theta Gold Mines	TGM		strong rise	gold
Thor Energy	THR		back into downtrend	uranium
Tietto Minerals	TIE		surge on takeover approach	gold
Vanadium Resources	VR8		drifting lower	vanadium
Venture Minerals	VMS		down	tin, tungsten
Vintage Energy	VEN		breached downtrend	gas
Voltaic Strategic Resources	VSR		new low	REO + lithium
West Cobar	WC1		down	rare earth + lithium
Westgold Resources	WGX		new high	gold
West Wits Mining	WWI		sideways	gold
Whitehaven Coal	WHC		testing downtrend	coal
Xantippe Resources	XTC		down	lithium
Zenith Minerals	ZNC		strong rise	gold exploration
Totals	24%	32	Uptrend	
	50%	67	Downtrend	
		135	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 Exploration	18	13.3%	
Gold	18	13.3%	
Rare Earths	15	11.1%	
Lithium	10	7.4%	
Oil/Gas	8	5.9%	
Copper	9	6.7%	
Nickel	7	5.2%	
Iron Ore/Manganese	5	3.7%	
Graphite/graphene	5	3.7%	
Uranium	6	4.4%	
Silver	4	44.4%	
Tungsten	3	2.2%	
Mineral Sands	2	1.5%	
Vanadium	3	33.3%	
Zinc/Lead	2	1.5%	
Coal	2	1.5%	
Potash/Phosphate	2	1.5%	
Bauxite	2	1.5%	
Tin	2	1.5%	
Cobalt	1	0.7%	
Diamonds	2	1.5%	

Other	**9**		
Total	**135**		

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