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FAR EAST CAPITAL

The Mining Investment Experts

Weekly Commentary

9 February 2019

NB: Charts not updated since 26th Jan

Analyst : Warwick

African company meetings, plus Real Energy, Lucapa and First Graphene

Mining conferences around Cape Town

INDABA was once the premier mining conference in Africa, as well as being an escape for Londoners from the miserable February weather. It probably is still the go-to conference for the big boys, but the new and emerging stories are better seen at satellite conferences such as Arlington's PreDABA and the 121 Conference. These gatherings provide opportunities for analysts and investors to have discussions with companies without having them be accused by ASIC for having secret briefings (for now).

You can usually manage 10 meetings or more each day, of 30-40 minutes each. It is much better than listening to a group presentation in an auditorium where you can't interrupt and question what is being presented. There were in excess of 100 companies available for meetings at 121, and a lesser number at the more intimate PreDABA, so you need to choose carefully to get the maximum benefit. Invariably it is a mixture of catching up with companies that you know well and from which you are looking for an update, and new stories that have come to the market more recently. While ASX-listed stocks are the most relevant to us, TSX-V and AIM-listed companies also feature. It is more difficult for us to deal on these exchanges, but often they are simply "*different dogs with the same leg action*". That said, it can be interesting to see what valuations these markets place on assets.

There is quite a bit of detail to go through, making it laborious for me to write up, and probably equally so for you to read. I'll progressively go through them over the next week or two. In the meantime, there has been interesting news flow from stocks that we have covered in past Weeklies.

Real Energy delivers good gas flow

RLE announced an initial flow rate from Tamarama 3 of 2.5 mmcf/day, in the Cooper Basin, using a 24/64 choke size. This was within expectations for the company, enabling it to lodge an application for a pipeline licence between the three Tamara wells and the Mt Howitt gas processing facility operated by Santos, 14 km away.

The success of this well places the company in a good position to construct the pipeline and commence commercial gas production later in 2019, to feed into the gas shortage that is expected on the east coast of Australia over the next few years.

The market responded appropriately on the news, rising 35% to peak at 11.5¢, but closing at 10¢ at the end of the week. As at 31 December, the company had $3m in cash, so we should expect that there will be a raising in the near term. You can't grow a company and develop cash flow without spending first, but in the case of Real Energy the capital expenditure will be minimal. The pipeline might cost in the order of $6m, but in this case be financed by debt. In the near term we are unlikely to see anything greater than several million dollars, which should be comfortably achievable given the market capitalisation around $30m.

Diamond stocks have been weak, like most others

Lucapa has been our favourite diamond producer for some time, though the share price has failed to respond to improving merits. Disappointing as this has been, in an interview with Cliff Elphick, the CEO of Gem Diamonds, we went through the charts of all of the leading diamond producers listed in Canada and the UK. All of them were in downtrends, so the performance of Lucapa's price was on par with the others in the sector.

De Beers has recently entered the market with small synthetic diamonds that sell in the order of US$100/ct. Volumes are still small, but this has damaged sentiment at the smaller end of the market. Nevertheless, the optimists are looking out for the closure of the Argyle diamond mine next year, which will result in the loss of 14 million carats p.a. from world supply. This is expected to lead to a tightening and subsequent price improvement for smaller stones.

At the other end of the scale (where Lucapa specialises) there was a rumour that Lucara Diamond Corp, the producer of the largest quality stones to the world, is going to be "taken out" some time in the next few weeks. We can speculate as to who would be the bidder but whoever it is, a corporate event of this magnitude in the diamond space would generate increased awareness and interest to the benefit of the entire sector. Let's see if something happens.

Lucapa achieves excellent diamond sale - A$22.9m

We may well ask whether 2019 will be the year in which investors start to appreciate Lucapa. After all, it is our opinion that the shares continue to offer very good value. It has had nothing but good news flow for some time now.

LOM ascended to the status of a producer with the Lulo alluvial diamond mine in Angola in 2015. Since then the mine has achieved diamond sales of US$141m at a very impressive average price of US$2,100/ct. This price has been achieved due to consistent production of special stones (>10.8 carats), including two amazing stones of 227 and 404 carats.

Notwithstanding this performance the company seems to have dropped off the radar a while back, after going through a period of high speculative activity. There is a perception that alluvials are higher risk than primary kimberlite pipes, so institutional investors have usually used the absence of a primary orebody as a reason not to buy the shares. It is very convenient to use this excuse, but it shows a shallow level of thinking. As far as return on capital is concerned, nothing beats an alluvial mine that consistently achieves the production coming out of Lulo. There is always a level of uncertainty on the mine life of alluvials, but this is more a function of what is realistic than a weakness.

At Lulo, the company is operating on a revolving resource base of 3-4 years. As it mines it proves up more resources. It is not dissimilar to narrow high grade underground gold mines in this regard. You need to see beyond the straight-jacket of the JORC rules to get a realistic picture. From where I sit I see no reason why the mine won't still be operating in 10 year's time.

Exploration work is ongoing to try and identify a source pipe, but what would it mean if Lucapa did find one, or more? In the first instance it would be an invitation to spend a lot more money drilling and defining the size, the geometry and grade of the pipe. This would take several years. Then, economic assessments would need to be undertaken along with pilot operations. Eventually hundreds of millions of dollars would be needed to finance a mine development. Finding the pipe might be the start of a new book but there would be many chapters along the way. In the meantime, the alluvials will continue to be very profitable.

From the outset Angola was a country known for its corruption and it was viewed in a negative light such as other countries that included the DRC, Indonesia and Russia. The 40% holding that Lucapa had in the alluvial operation was not seen as a strong position (another reason used to avoid buying shares). However, things are changing with the new President. Jose Eduardo dos Santos ran the country to his benefit from 1979 to 2017, but Joào Lourenco replaced him in 2017, promising changes.

Previously, all diamonds produced at Lulo had to be sold through the government owned marketing body, Sodiam, in an opaque process. There was always some scepticism as to how objective this process was, and whether it was detrimental to the value that Lucapa received. Well, we have our answer now.

On 1 February, 2019, Lucapa announced receipts of $22.9m worth of diamonds at an average price of US$33,530/ct. Seven large, top quality diamonds weighing 498 carats were sold. This was a sale by competitive electronic tender, being the first such process undertaken under the new diamond marketing policy introduced by the new president. It has been estimated that receipts were 30-50% better than we would have seen under the previous process, though it was still organised by Sodiam. More than 30 diamantaires attended.

So, if this was indicative of what we can see in the future, Lucapa has just received a serious boost to its cashflow in the foreseeable future. Add to this the news that plant throughput will improve by at least 25% in 2019, as it implements a third shift at the processing plant (company guidance). Shareholders should be looking forward to significant improvements in profitability. Just how much better will have to wait until I have time to run the spreadsheet - or the company releases figures.

For those investors who continue to say that they need a hard rock mine before they will invest, then look no further. The Mothae mine in Lesotho (70% LOM), a much lower risk country, has been commissioned and is being ramped up. The 2019 target is 21,000 carats and a positive cash flow of US$15m whilst operating at the 1.1 Mtpa, Phase 1. Phase 2 would double the treatment rate.

Commissioning is always a delicate time as this is where the wheels can fall off if there are any fatal flaws. Here, the company has reported that the plant is going very well, achieving better diamond liberation and grades than forecast in the DFS. Special stones produced to date include 78 and 38 carat D-colour whites and a 89 carat yellow. So raver so good.

Interestingly, Euroz has a research note out that values Lucapa at 61¢/share. I have no reason to doubt the integrity of this valuation.

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

Another graphene product vertical for FGR

Last week First Graphene came out with another product vertical into which it plans to sell PureGRAPH™ in 2019, adding to the purchase order for 2,000 kg received from newGen later in December. First Graphene and Steel Blue, Australia's leading supplier of safety work boots, announced that they would commence product development on graphene-enhanced safety boot components.

While it may sound that FGR is just looking to test and assess the performance of graphene in boots, you can be assured that there is no uncertainty here. It is not a question of if, but of when, and it won't be too far away. Graphene products are being added to running shoes and boots in the UK already, with great consumer acceptance.

As each new product vertical comes along, and as industry sees that there is a reliable supplier of fit-for-industry high quality graphene in FGR, more companies will be tempted to come over the fence to participate in the graphene revolution. Now that the ball has started rolling it is not going to stop. It is just a question of how much early momentum can be achieved.

The most likely scenario for FGR a year or two out is that it will have 10-20 customers (or maybe more) who want 1,000-2,000 kg of graphene p.a. Some will want more, perhaps 5,000-10,000 kg p.a. The company will be building its own sales team that will work directly with customers, building the sales book. Along the path there may even be major deals come along that require hundreds of tonnes of PureGRAPH™, and the establishment of dedicated production facilities close to such customers. However, at the moment this is crystal ball gazing, but it is very exciting.

Disclosure: Interests associated with the author own shares in First Graphene. The author is the non-executive chairman of First Graphene and has received capital raising fees.

Sentiment Oscillator: not update

Detailed Chart Comments (not updated)

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		breached final resistance	
Metals and Mining	XMM		failed to penetrate final resistance	
Energy	XEJ		breached downtrend	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
Adriatic Resources	ADT		breached uptrend	zinc
Aeon Metals	AML		downtrend confirmed	copper + cobalt
Alacer Gold	AQG		breached final resistance	gold – production
Alkane Resources	ALK		sideways at lows	gold, zirconia
Acacia Resources	AJC		Sideways at the bottom	coal
Alchemy Resources	ALY		sideways	nickel, cobalt
Alicanto Minerals	AQI		back to lows	gold exploration
Allegiance Coal	AHQ		heavy fall, then strong recovery	coal
Alliance Resources	AGS		resting on support line	gold exploration
Altech Chemicals	ATC		down	industrial minerals - synthetic sapphire
Anova Metals	AWV		new low on poor production report	gold
Apollo Consolidated	AOP		breached support	gold exploration
Archer Exploration	AXE		sideways at lows	magnesite, graphite
Argent Minerals	ARD		breached steepest downtrend	silver
Aurelia Metals	AMI		breached correcting pattern	gold + base metals
AusTin	ANW		holding support line	tin, cobalt
Australian Bauxite	ABX		breached uptrend	bauxite
Australian Potash	APC		breached final resistance	potash
Australian Mines	AUZ		rallying	cobalt/nickel
Australian Vanadium	AVL		rallying	vanadium
Bounty Coal	B2Y		strongly rally after funding	coal
BHP	BHP		corrected back to support line	diversified
Base Resources	BSE		down	mineral sands
Bathurst Resources	BRL		beneath LT downtrend line	coal
Battery Minerals	BAT		sideways at lows	graphite

BBX Minerals	BBX		secondary downtrend	gold
Beach Energy	BPT		breached downtrend	oil and gas
Beadell Resources	BDR		breaching downtrend	gold
Bellevue Gold	BGL		new high	gold
Berkeley Energia	BKY		surged higher- Spanish media	uranium
Blackstone Minerals	BSX		back to lows	gold, cobalt
Breaker Resources	BRB		down	gold
Broken Hill Prospecting	BPL		new low	minerals sands
Buru Energy	BRU		down	oil
Cardinal Resources	CDV		drifting lower	gold exploration
Cassini Resources	CZI		consolidating	nickel/Cu expl.
Celsius Resources	CLA		rallying	copper/cobalt
Chalice Gold	CHN		rallying	gold
Cobalt Blue	COB		free fall on study results	cobalt
Comet Resources	CRL		sideways at lows	graphite
Dacian Gold	DCN		steeply higher then heavy pullback	gold
Danakali	DNK		breached uptrend	potash
Davenport Resources	DAV		steep rise, pullback and consolidation	potash
Doray Minerals	DRM		sideways - merger	gold
Eden Innovations	EDE		down	carbon nanotubes in concrete
Egan Street Resources	EGA		moving higher within LT downtrend	gold
Emerald Resource	EMR		risen to resistance	gold
Evolution Mining	EVN		higher	gold
Exore Resources	ERX		rising	gold exploration
FAR	FAR		crunched down on dud oil well	oil/gas
First Graphene	FGR		rising again	graphene
Frontier Diamonds	FDX		breached downtrend, then back to lows	diamonds
Fortescue Metals	FMG		rallied out of steepest, but still in LT downtrend	iron ore
Galaxy Resources	GXY		back into downtrend	lithium
Galilee Energy	GLL		testing short term downtrend	oil and gas, CBM
Gascoyne Resources	GCY		rallying from lows	gold
Gold Road	GOR		testing short term downtrend	gold exploration
Golden Rim	GMR		stronger, new uptrend just beginning	gold exploration
Graphex Mining	GPX		new low	graphite
Heron Resources	HRR		sideways	zinc
Highfield Resources	HFR		rallied to meet resistance line	potash
Highlands Pacific	HIG		down	nickel, cobalt
Hillgrove Resources	HGO		sideways	copper
Hipo Resources	HIP		rallied to meet resistance line	battery metals
Iluka Resources	ILU		surged higher	mineral sands
Image Resources	IMA		higher	mineral sands
Independence Group	IGO		still in downtrend, but stronger	gold, nickel
ioneer (was Global Geoscience)	INR		down	lithium
Jervois Mining	JVR		rising	nickel/cobalt

Jindalee Resources	JRL		surge higher, then a pullback	lithium
Karoon Gas	KAR		new low	gas
Kasbah Resources	KAS		downtrend breached on consolidation	tin
Kibaran Resources	KNL		testing downtrend	graphite
Kin Mining	KIN		heavy fall	gold
Legend Mining	LEG		down	nickel exploration
Lepidico	LPD		continuing down	lithium
Lithium Australia	LIT		continuing downtrend	lithium
Lucapa Diamond	LOM		continuing downtrend	diamonds
Lynas Corp.	LYC		new low	rare earths
Macphersons Res.	MRP		sideways	gold/silver
Mako Gold	MKG		higher in new ST uptrend	gold
Marmota	MEU		sideways	gold exploration
MetalsX	MLX		rounding out at bottom of downtrend	tin, nickel
Metro Mining	MMI		rounding out at bottom of downtrend	bauxite
Mincor Resources	MCR		sideways	gold
Musgrave Minerals	MGV		breached uptrend	gold exploration
Myanmar Minerals	MYL		testing downtrend	zinc
Nelson Resources	NES		still struggling in downtrend	gold exploration
Neometals	NMT		down	lithium
Northern Cobalt	N27		down again	cobalt
Northern Minerals	NTU		new low	REE
Northern Star Res.	NST		testing uptrend	gold
NTM Gold	NTM		sideways	gold
Oceana Gold	OGC		rising again	gold
Oklo Resources	OKU		down	gold expl.
Orecorp	ORR		in secondary downtrend	gold development
Orinoco Gold	OGX		down	gold development
Orocobre	ORE		heavy fall	lithium
Oz Minerals	OZL		sideways	copper
Pacific American Coal	PAK		testing downtrend	coal
Pantoro	PNR		breached downtrend, moving higher	gold
Panoramic Res	PAN		breached downtrend, at secondary resistance point	gold , nickel
Peak Resources	PEK		down	rare earths
Peel Mining	PEX		failed to hold breach of longer term downtrend	copper
Peninsula Energy	PEN		downtrend again	uranium
Perseus Mining	PRU		stopped at resistance line	gold
Pilbara Minerals	PLS		down heavily	lithium/tantalum
PNX Metals	PNX		lower	gold, silver, zinc
Polarex	PXX		still down	polymetallic exploration
Prodigy Gold	PRX		down	gold exploration
Real Energy	RLE		testing uptrend	gas
Red5	RED		rising	gold
Red River Resources	RVR		down	zinc

Regis Resources	RRL		moving higher	gold
Resolute Mining	RSG		rallying	gold
RIO	RIO		breached downtrend	diversified
Salt Lake Potash	SO4		re-entering downtrend	potash
Saracen Minerals	SAR		up	gold
St Barbara	SBM		up	gold
Sandfire Resources	SFR		breached downtrend	copper
Santana Minerals	SMI		breached downtrend	silver
Santos	STO		breached downtrend	oil/gas
Sheffield Resources	SFX		down	mineral sands
St George Mining	SGQ		new, gentle uptrend forming	nickel
Sipa Resources	SRI		recovered, to sideways pattern	general exploration - Ni,Cu, Co, Au
Stanmore Coal	SMR		new high	coal
Sundance Energy	SEA		stronger following consolidation	oil/gas
Syrah Resources	SYR		breached downtrend	graphite
Talga Resources	TLG		new low	graphite
Tanami Gold	TAM		breached downtrend	gold
Technology Metals	TMT		short term down	vanadium
Tiger Realm	TIG		down	coal
Triton Minerals	TON		breached steepest downtrend	graphite
Troy Resources	TRY		down	gold
Tyranna Resources	TYX		back in downtrend	gold exploration
Vango Mining	VAN		down	gold
Vector Resources	VEC		at resistance	gold
Venturex	VXR			zinc
Vimy Resources	VMY		down	uranium
Volt Resources	VRC		sideways	graphite
West African Resources	WAF		down	gold
Westwits	WWI		down	gold
Western Areas	WSA		testing downtrend	nickel
Whitehaven Coal	WHC		breached ST downtrend, resistance at $5-$5.20	coal
Totals	20%	28	Uptrend	
	46%	66	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	38	26.6%	
Gold Exploration	14	9.8%	
Graphite	9	6.3%	
Nickel	9	6.3%	
Coal	8	5.6%	
Oil/Gas	8	5.6%	
Lithium	8	5.6%	
Copper	6	4.2%	
Mineral Sands	5	3.5%	
Zinc	5	3.5%	
Potash/Phosphate	5	3.5%	
Cobalt	4	2.8%	
Tin	3	2.1%	
Uranium	3	2.1%	
Rare Earths	3	2.1%	
Silver	2	1.4%	
Bauxite	2	1.4%	
Diamonds	2	1.4%	
Vanadium	2	1.4%	
Iron Ore	1	0.7%	
Other	6		
Total	143		

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