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FAR EAST CAPITAL

The Mining Investment Experts

Weekly Commentary

9 July 2016 *Charts on Friday's Close* Analyst : Warwick Grigor

FOMO alive and well in the gold sector, but what about silver? FGR graphene production unit all set to change the game

Confirmation of the gold bull market

The Metals and Mining Index had a strong breakout on the upside early in the week, notwithstanding the uncertainty regarding the Federal election result. Going through each of the charts it is obvious that gold stocks have been at the vanguard of the rise, being bought aggressively in a belated response to the sustained surge in the gold price following the Brexit vote. From a position in late May when the gold price was lagging, we now have a strong surge and the next wave of the gold bull market. The higher it goes the more money it sucks into gold stocks.

The performance of gold on Friday night is instructive. The gold price dropped US$10/oz in a hurry on the news of strong jobs growth in the US, but it immediately recovered this loss and surged higher. That tells us that there are new dynamics coming into play. A bull market tends to feed itself, taking the positive slant on any news flow. That is what we have here.

The way that many of the junior gold stocks have spiked over the last week suggests panic buying was taking place. It is as if the punters have quickly scanned the market to find gold stocks that haven't moved and they have scrambled to get set. If you follow this buying in now, of the smaller stocks, you run the risk of buying at a short term peak and the possibility that share prices will fall 20-40% before resuming an upwards path, some months later (assuming the bull market has length). As usual, the time to be buying is before everyone else; but that takes courage.

But silver stocks are lagging the silver price rise

With the gold sector having run so hard on the back of the recent rise in the gold price, shouldn't we also be looking at silver? It has risen from below US$14/oz in January to better than US$20/oz in the past week, a rise in the order of 40%. In the last six weeks the move has been more dramatic, increasing from US$16/oz, a rise of 25%. Over the same periods gold has about 25% and 12%. The FOMO that has hit the gold market has yet to migrate to the silver sector, but it will happen.

What silver sector? That is the problem, there aren't many pure silver stocks to play in Australia. Silver is often a by-product of base metal mines but sometimes you get silver or silver/gold mines. A quick glance at our listed stocks shows Investigator Resources (IVR), Macpherson Resources (MRP), Silver Mines (SVL) and Santana Minerals (SMI) as legitimate silver plays.

Investigator has been working on the Paris silver discovery in South Australia. Macpherson has the advanced Nimbus project just outside of Kalgoorlie that is ideally placed to proceed to production on the securing of finance. Santana Minerals is at the other other end of the spectrum with a brownfields and grassroots exploration play in Mexico that has been returning some promising drill results.

Silver Mines is somewhere in between. It has just acquired the rights to the Bowdens silver project near Mudgee in NSW, from Kingsgate Consolidated. The first 85% of Bowdens has cost SVL $20m, and the payment of another $5m in September will see it moving to 100% ownership. When Kingsgate had the Bowdens project it announced a JORC resource of 182 mill. oz AgEq in a low-grade (64 gpt AgEq) bulk tonnage style of orebody.

SVL shares were reinstated to quotation on 21 June 2016, after completing a $35m raising through Bell Potter. With a market capitalisation in the order of $90m, you could say that it is starting to get to the institutional size. It already has the backing of Black Rock (12.2%), Paradice Investment Management (5.9%), Mitsubishi UFJ Financial (6.7%) and Regal Funds Management (5.9%).

SVL looks like an interesting silver play at the right time in the silver price cycle, but one shouldn't assume it will be an easy path to production. It has been around a long time and not yet been developed. Historical studies have considered production rates of 2.5 to 4 mtpa, at capital costs of $140m and $363m, and operating costs of US $7.30/oz and US$7.56/oz respectively. Nevertheless, it is a legitimate silver play.

Taking a closer look at Macperson's Nimbus project, this hosts a 12.1 Mt orebody with a silver grade of 52 gpt, 0.2 gpt gold and 0.9% zinc. The silver equivalent resource stands at 23 mill. oz. Various studies have been undertaken over the years but the weak silver prices precluded development. That may be about to change if silver continues its run. Additionally, MRP has a 340,000 oz low grade gold resource at the Boorara project near Kalgoorlie. It is currently undertaking a BFS on a 3-3.5 Mtpa heap leach project to produce 86-90,000 oz of gold p.a. The current market capitalisation of $30m seems rather cheap given the potential upside of both silver and gold.

The higher risk exploration stock, Santana Minerals, is even cheaper at $12.5m market capitalisation. It has recently reported results from a drilling program designed to shift the focus from narrow, high grade veins to broader zones of lower grade mineralisation amenable to bulk mining methods. Some better intercepts reported over the past couple of weeks include 83m at 97 gpt (including 25m at 222 gpt), 67m at 66 gpt (including 7m at 325 gpt). Trench results have included 9m at 313 gpt and 4m at 241 gpt. There is definitely economic mineralisation worthy of follow-up work.

A strong positive for SMI is the experience of the team that previously had a really big win for shareholders in Bolnisi Gold, courtesy of the Palmarejo project in Mexico. So, now we have the Son of Bolnisi.

Investigator has an interesting project that has managed an Inferred Resource of 8.8 Mt at 116 gpt, that is amenable to shallow bulk mining at a depths of 5m to 160m. This is still modest at 32 mill. oz of silver, but it is a good starting point. We won't know much more about the economics until the pre-feasibility study is completed in mid 2017, which will consume $3.5m. At the last sale price of 4.7¢ the company has a market capitalisation of $21m. There is room for upside given the outlook for silver.

First Graphite graphene production unit ready to go

On Friday morning First Graphite Resources (FGR) made a very significant announcement - one that underlines the reasons why I have decided to switch out of Talga into FGR. It has completed design and production of its first commercial scale graphene production unit which will have capacity to produce 5 tpa of graphene. This will be operational by the end of July.

We have all heard about how graphene promises to change the world due to the amazing properties of strength, conductivity and flexibility to name just a few. Many graphite companies have tried to add the word graphene to their ASX releases to show that they will have a role in this exciting new frontier of nanotechnology, often causing strong positive movements in their share prices.

That is understandable, but investors need to consider economics rather than just technical possibilities. In theory you can recover graphene from any source of hydrocarbon or carbon based product, be it methane gas, synthetic graphite, concentrated natural graphite, recycled plastic bottles or even used car tyres. Those flake graphite companies that say they can make it from graphite are probably telling the truth, but they need to fess up that first they have to mine, crush, treat and concentrate the product to lift it to > 95% carbon. That exercise is not cheap, depending upon individual project economics. It takes tens and hundreds of millions of dollars just to get started. The financial hurdles to entry into the industry are not to be sneezed at.

This is where vein graphite presents itself as a no-brainer. It comes out of the ground at approximately 95% TCG. It requires no above ground processing other than a little bit of hand sorting to make sure that barren rock hasn't made it into the supply. The vein graphite is a high value product that can be fed directly into the electrochemical exfoliation graphene production unit that has just been constructed by First Graphite. This promises to be able to convert vein graphite to graphene at a yield of 80%, at an average size of 30-40 microns, making it undisputedly the lowest cost source of high quality graphene for bulk applications of graphene. The capital cost of each unit, being less than the costs of an average car, is tiny compared to the revenue that it can generate.

This is a world first. It is disruptive technology. It is a game changer. Choose your own superlatives and cliches. It will bring the cost of graphene down to levels where it will be more rapidly adopted by industry. It will make supplies available particularly for bulk uses, adding to the progress being made in electronics. It will accelerate the adoption of graphene in the battery making technologies, be they lithium-ion, aluminium graphene or silica-based technologies. Graphene has the potential to improve almost anything it is added to provided the science of adding - characterising and functionalising - is undertaken, optimised and successfully achieved.

First Graphite expects to be able to mine and sell its vein graphite on strong profit margins. Revenue is likely to be in the range of US$2,000-$3,000 pt for ROM ore that is estimated to cost less than US$700 pt to produce. Some investors have been saying that it needs to secure off-take agreements to get the next tick, but that it not so. Vein graphite has never been sold on long-term off-take agreements. They are not needed as there is actually a shortage of high purity vein graphite. Further, there is no need to lock in a sales contract as a condition precedent to achieving mine finance as the capital costs are so low. In the case of FGR it has already raised sufficient capital to develop and commission at least several mine shafts.

Mining and selling the vein graphite promises to be very profitable with an enviable rate of return on capital, but the super profitability will come with the diversion of graphite supplies to the production of graphene. Whatever tonnage of mine supply is sent down this path will likely result in a 10x lift in profitability per tonne. That is what you need to understand.

FGR has to determine the best business model to maximise its earnings from graphene. A simple approach would be to produce and sell graphene like any other product, but it may make a lot more sense to collaborate with industry and take a royalty in graphene based products. That would open up the door to an unending growth curve that would only be limited by the size of the market. There is still much work that needs to be done here in order to optimise the revenue model.

The graphene market is embryonic and it will take time to show its full potential, but developments in the supply of graphene such as the production unit announced by FGR will be very important for universalising the use of graphene in industry. Cost and availability of supply will not be the impediments they have been. FGR is leading the field in this regard. It has a first mover advantage and has made much faster progress than Talga Resources, which first opened my mind to the possibilities with this very efficient production process. The investment community is yet to awake to the possibilities and the "what if" scenarios.

We have added Graphex Mining (GPX) to our chart coverage this week following a very successful IPO.

Sentiment Indicator: There was a strong swing to the bullish side of sentiment during the week with 52% (45%) of the stocks in uptrend and 25% (28%) 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		struggling to hold four month uptrend	
Metals and Mining	XMM		strong rise in downtrend breach	
Energy	XEJ		sideways	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
ABM Resources	ABU		new high	gold
Aeon Metals	AML		new high	copper + cobalt
Alacer Gold	AQG		rising again	gold – production
Alkane Resources	ALK		testing downtrend after placement of shortfall	gold, zirconia
Acacia Resources	AJC		Sideways at the bottom	coal
Aguia Resources	AGR		still in downtrend	phosphate
Alicanto Minerals	AQI		new high	gold exploration
Altlech Chemicals	ATC		strongly higher	industrial minerals
Anova Metals	AWV		new high	gold
Antipa Minerals	AZY		new high	gold
Archer Exploration	AXE		breached uptrend	graphite
Argent Minerals	ARD		breached downtrend	polymetallic
Atlas Iron	AGO		down	iron ore
Atrum Coal	ATU		testing support line	coal
Aurelia Metals	AMI		new high	gold + base metals
Auroch Minerals	AOU		down on withdrawal from lithium deal	exploration
Australian Bauxite	ABX		new uptrend confirmed	bauxite
Avanco Resources	AVB		turning down	copper
AWE	AWE		resistance at 90¢	oil and gas
BHP	BHP		breached uptrend	diversified
Base Resources	BSE		steep rise from lows	mineral sands
Beach Energy	BPT		long term downtrend in play	oil and gas
Beadell Resources	BDR		new high	gold
Berkeley Resources	BKY		new high	uranium
Blackham Resources	BLK		new high	gold
Broken Hill Prospect.	BPL		short term down	minerals sands, cobalt
Buru Energy	BRU		new low	oil
Canyon Resources	CAY		new high	bauxite
Cardinal Resources	CDV		stepped up	gold exploration
Carnegie Wave	CWE		downtrend	wave energy
Cassini Resources	CZI		down	nickel/Cu expl.
Chalice Gold	CHN		new high	gold
Consolidated Tin	CSD		strong rise then pullback	tin
Consolidated Zinc	CZL		downtrend breached then heavy pullback	zinc
Coventry Resources	CYY		rising again	copper
Dacian Gold	DCN		new high	gold exploration
Danakiali	DNK		rising again	potash
Doray Minerals	DRM		new high	gold
Duketon Mining	DKM		pullback	nickel
Eden Energy	EDE		rallying	carbon nanotubes in concrete
Energia Minerals	EMX		new high then heavy correction	zinc
Evolution Mining	EVN		new high	gold
Excelsior Gold	EXG		new low	gold
First Australian	FAR		down	oil/gas
First Graphite	FGR		pullback	graphite
Fortescue Metals	FMG		breakout upside	iron ore
Galaxy Resources	GXY		breached uptrend	lithium
Galilee Energy	GLL		still down	oil and gas, CBM
Gascoyne Resources	GCY		rising again	gold
General Mining	GMM		testing steep uptrend	lithium

Geopacific Res. Resources	GPR	sharp rise then trading halt	copper/gold exp.
Gold Road	GOR	uptrend	gold exploration
Goldphyre	GPH	higher	potash,gold
Graphex Mining	GPX	surge after IPO	graphite
Gryphon Minerals	GRY	new high on takeover bid	gold
Herron Resources	HRR	at highs	zinc
Highfield Resources	HFR	consolidating after breaching downtrend	potash
Highlands Pacific	HIG	sideways around lows	copper, nickel
Hillgrove Resources	HGO	vertical rise on debt restructuring	copper
Hot Chilli	HCH	collapsed	copper
Iluka Resources	ILU	correcting after rise	mineral sands
Independence	IGO	new high	gold, nickel
Intrepid Mines	IAU	sideways - 7¢ capital return proposed	copper
Karoon Gas	KAR	testing downtrend	gas
Kasbah Resources	KAS	sharp rise, and trading halt	tin
KBL Mining	KBL	collapse to new low, and placement	copper/gold/zinc
Kibaran Resources	KNL	breached downtrend but then a pullback	graphite
Kin Mining	KIN	new high	gold
King Island Scheel.	KIS	new low	tungsten
Kingsgate Consol.	KCN	suspension	gold
Kingsrose Mining	KRM	down	gold
Legend Mining	LEG	gentle downtrend	exploration
Lithium Australia	LIT	breached ST downtrend	lithium
Lucapa Diamond	LOM	slight rally	diamonds
Macphersons Res.	MRP	sideways to higher	silver
Medusa Mining	MML	breached ST downtrend	gold
Metals of Africa	MTA	breached uptrend	zinc expl/graph.
MetalsX	MLX	new high	tin, gold
Mincor Resources	MCR	breaking out upside	nickel
MMJ PhytoTech	MMJ	testing downtrend	medical cannabis
Mustang Resources	MUS	new uptrend	diamonds, rubies
MZI Resources	MZI	breaching downtrend	mineral sands
Northern Minerals	NTU	testing downtrend	REE
Northern Star Res.	NST	new high	gold
Oceana Gold	OGC	new high	gold
Oklo Resources	OKU	rising	gold expl.
Orecorp	ORR	new high	gold development
Orinoco Gold	OGX	rising again	gold development
Orocobre	ORE	through resistance and higher	lithium
Oz Minerals	OZL	back to highs	copper
Paladin Energy	PDN	new uptrend	uranium
Pacific American Coal	PAK	correcting after rise	coal, graphene
Pantoro	PNR	surge to new high	gold
Panoramic Res	PAN	rising	nickel
Paringa Resources	PNL	secondary downtrend	coal
Peel Mining	PEX	gentle uptrend	copper
Peninsula Energy	PEN	rallying	uranium
Perseus Mining	PRU	new high	gold
Pilbara Minerals	PLS	breached uptrend	lithium/tantalum
Potash West	PWN	recovering from heavy fall	potash
Red River Resources	RVR	sideways	zinc
Regis Resources	RRL	new high	gold
Renaissance Min.	RNS	testing uptrend	gold
Resolute Mining	RSG	new high	gold
Reward Minerals	RWD	still down	potash
Rex Minerals	RXM	back to lows	copper
RIO	RIO	breached downtrend	diversified
RTG Mining	RTG	steeply higher	copper/gold
Rum Jungle	RUM	new low	quartz
Salt Lake Potash	SO4	uptrend breached	potash
Saracen Minerals	SAR	new high	gold
St Barbara	SBM	new high	gold
Sandfire Resources	SFR	breached ST downtrend	copper

Santana Minerals	SMI		strong rise	silver
Santos	STO		continuing stronger	oil/gas
Sheffield Resources	SFX		uptrend in play	mineral sands
Silver City Minerals	SCI		surge higher	base metals
Silver Lake Resources	SLR		new high	gold
Silver Mines	SVL		surge to new high	silver
Sino Gas & Energy	SEH		new uptrend	gas
Southern Gold	SAU		uptrend continuing	gold
Stavely Minerals	SVY		new low	copper exploration
Sunbird Energy	SNY		down	gas/CBM
Sundance Energy	SEA		falling again	oil/gas
Syrah Resources	SYR		strongly higher	graphite
Talga Resources	TLG		surge higher, then a placement & pullback	graphene
Tanami Gold	TAM		rising again	gold
Tiger Resources	TGS		new low	copper
TNG Resources	TGS		drifting lower	titanium, vanadium
Torian Resources	TNR		rising again	gold expl'n
Toro Energy	TOE		downtrend	uranium
Troy Resources	TRY		rising again	gold
Tyranna Resources	TYX		surge on drilling results	gold exploration
Vimy Resources	VMY		down	uranium
West African Resources	WAF		new high	gold
Westwits	WWI		off its lows	gold exploration/development
Western Areas	WSA		rising again	nickel
WPG Resources	WPG		ST down	gold
Wolf Minerals	WLF		continuing down	tungsten
Totals	52%	72	Uptrend	
	25%	34	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	34	24.6%	
Copper	16	11.6%	
Oil/Gas	10	7.2%	
Gold Exploration	11	8.0%	
Uranium	5	3.6%	
Graphite	6	4.3%	

Weightings of Sectors Represented in the Company Charts			
Potash/Phosphate	**7**	**5.1%**	
Zinc	**6**	**4.3%**	
Nickel	**5**	**3.6%**	
Coal	**4**	**2.9%**	
Mineral Sands	**5**	**3.6%**	
Iron Ore	**2**	**1.4%**	
Tin	**3**	**2.2%**	
Lithium	**5**	**3.6%**	
Silver	**4**	**2.9%**	
Diamonds	**2**	**1.4%**	
Bauxite	**2**	**1.4%**	
Other	**11**		
Total	**138**		