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FAR EAST CAPITAL
The Mining Investment Experts

Weekly Commentary

9 October 2021 | *On Friday's Close* | Analyst : Warwick Grigor

Sunstone announces major gold discovery in Ecuador

We seem to have transitioned from the pre-covid "global economy" to what is now called the "shortage economy", in which interruptions to supply chains have caused a new era of shortages that bring with it the return of inflationary expectations. At the same time the government stimulation of economies (US$10.4 trillion dollars), designed to prevent an economic slowdown, has been fuelling consumer demand that cannot be satisfied due to shortages of components such as microchips. Logistics interruptions such as a shortage of available shipping containers is choking off supplies. Elsewhere, such as in Britain, there is a shortage of truck drivers induced by a retreat from globalism (Brexit). It is all very messy and unsatisfying.

In parallel, the climate change deniers seem to have lost their oxygen, quietly fading into the background as political reality has taken over in the push for renewable energy. We are seeing the predictable shortages of traditional hydrocarbon and thermal coal sources of power as the lack of investment in these areas is restricting supply. The failure of ethical investment institutions and governments to acknowledge that the optimum sustainable mix of energy sources is a balancing act, with all sources required (including nuclear), has led to disruption that we see now, and for the foreseeable future. We can't afford to delegate direction of something as critical as power supplies to social interest groups when you have democracies that are vulnerable to the will of the ignorant and ill-informed masses.

It is all rather confusing and we are seeing that confusion being mirrored in the volatile equities market in recent sessions. The rush to participate in EV and alternative metals has found many investors with their pants down, with respect to traditional forms of energy. The problem for stock market punters is that there are limited ways to play a sector that has been, until recently, shrinking. What incentive is there for new ventures to repopulate the space when they know they are inevitably going to become victims of vitriol as soon as it is convenient?

Sunstone Metals discovery; 8-16 Moz potential

Sunstone Metals (STM) has continued the successes being achieved by ASX-listed explorers in South America, reporting a significant discovery in its very first hole into the El Palmer prospect in Ecuador. It warrants being called a discovery from this first hole owing to the commercial grades of 1.05 gpt AuEq over a large width, from a magnetised body that measures 600m in diameter, to a depth of at least 800m. That means we are looking at something in the order of 500 Mt, and that could translate into a resource in the range of 8-16 Moz, using grade of 0.5-1.0 AuEq.

While Codelco did punch three holes into the prospect in 2012, it did so without the assistance of the geophysics that Sunstone has run. Those three holes did show that there was a porphyry as it hit the edges but there was no insight into potential dimensions. The 1-8m of younger volcanics at surface, masking the porphyry underneath, wouldn't have helped in the understanding of what lay underneath.

The actual intercept reported by STM was 163.55m at 0.71 gpt Au and 0.2% Cu (1.05 gpt AuEq) from a depth of 52.3m, within 480.8m at 0.41 gpt Au and 0.15% Cu (0.66 AuEqu). Hole 2 delivered another 167.5m at 0.58 gpt Au and 0.26% Cu (1.02 gpt AuEqu), from a partial intercept from 250m depth. The remainder of this hole and those for Hole 3 are expected in six weeks.

Hole 4 is about to finish, then Hole 5 will be drilled to the west of 4, then Hole 6 will drill vertically down the guts to test whether it goes to 800m, 1,000m or whatever. Advanced interpretation of the dimensions are assisted by the magnetic nature of the porphyry, though Figure 2 of the release shows a "bald" patch in the middle. This probably results from a later intrusion pushing its way in. Maybe there will be grade in this, but it needs to be tested.

Placing this discovery in perspective with Solgold's huge Cascabel discovery, 100 km to the NE, it is noteworthy that the Cascabel mineralisation starts at about 500m vertical depth, whereas El Palmer starts almost at surface. This will have a huge impact on the relative development and operating costs that Solgold will have to incur. It may be that Solgold will have to take the high grade component only, being 400 Mt at > 1% CuEq, out of a total resource of 2.66 Bt that carries a grade of 0.37% Cu and 0.25 gpt Au.

While El Palmer is undoubtedly a huge discovery, orebodies of this size take a few years to drill out and they require plenty of money. Financially, Sunstone is in good shape with cash and equity investments totalling $21m, so shareholders don't have to worry about dilution from share issues in the near term. Sunstone has just moved to 51% of the project, with the ability to move to 100% ownership.

Kingwest drill results and production plans

Kingwest Resources *(*KWR) brought out two ASX releases recently. The first one was an update on the Sir Laurance discovery at Lake Goongarrie, where a 100m line step-out provided confirmation of the significant width for the bedrock gold mineralisation, from aircore drilling. While the 350m width was not as great as the 550m from the first line, it is by no means the final width. This latest line was an opportunity to test 100m further north, whilst the drill rig was still on location. It provided good confirmation.

There were another seven targets that were aircore drill tested in what was essentially a soil sampling program in areas where the lake cover is less than 20m deep. Most of these came up with encouraging grades of better than 100 ppb Au, in proximity to the NW-SE fault structures believed to be the source of mineralisation. So far so good.

Early in November, KWR is bringing in a diamond rig to drill four deeper holes to test for structure at Sir Laurence. At the same time the aircore drill rig will continue to test for anomalism.

Near-term gold production in JV

That is all positive news on the exploration front, but the production agreement with FMR Investments has more near-term implications for cash flow. FMR, a company associated with "Piggy" Bartlett, is to earn a 60% equity in the Yunndaga gold deposit, by funding the development of the resource and treating the ore at its Greenfields Mill at Coolgardie.

Capital costs are estimated at $12-14m, to develop the underground resource for a 300,000 tpa mining rate. FMR will fund this 100%, with KWR to receive upfront payments of $500,000 on signing the JV operating agreement and another $500,000 on commencement of the decline, expected to be in April 2022. It then has to wait until FMR has recovered it capital outlay before receiving its 40% share of free cash flow. Eventually, perhaps in 18-24 months, KWR could start to receive $0.5-$1m per month.

When I first looked at the Menzies gold resources of Kingwest I thought they were interesting, but they still didn't represent a critical mass to justify the development of a stand-alone mill - so I was cautious. However, the deal with FMR brings one of the most successful private gold production groups into the picture. They already have a mill through which to treat the ore, albeit 170 km trucking distance away. They have the hands-on experience to make money where many others would probably fail. The mining widths of 3-4m will enable mechanised mining using efficient long-hole open stoping techniques and we are told that anything above 2 gpt could make money. The reported grade is 4.6 gpt using a 3 gpt cut-off, but don't be surprised if the mine delivers even better grades, with good management. The orebody has only been drilled to 100m below the floor of the open pit and it is open at depth. The company expects that the mine life will be much longer than what the current resources suggest, as deeper drilling is undertaken, but time will tell.

Still priced at option value

It is a smart deal for Kingwest that could result in strong cashflow to advance the Lake Goongarrie exploration program, thereby minimising dilution. However, that doesn't mean the company won't issue more shares along the way, but again, time will tell. It all depends on how aggressive the company feels, and that depends on future drill results. Given the blue sky appeal and the comfort of future cash flow, the shares continue to be inexpensive in the market with a market capitalisation of less than $30m.

Disclosure: Interests associated with the author own shares and options in Kingwest.

FYI Resources looking like an HPA frontrunner

When we looked at the high purity alumina (HPA) companies almost two years ago the biggest question in) my mind was where the development money was going to come from. The sector was populated by a number of junior companies that faced the usual problem of having to raise hundreds of millions of dollars, being many times their market capitalisations. No matter how good the spreadsheets looked, and no matter how visionary the business plans were, it was all about the money.

At the time FYI Resources (FYI) had a market capitalisation of $11m and cash of less than $1m in the bank (it now has > $13m). Yet, as recently as early September 2021, the market capitalisation was over $300m, though it has halved since then following the announcement of a binding JV term sheet with Alcoa that provides a pathway to the development of project. Why? Was it bad news? Who sold 43 million shares on the day of the ASX release, worth more than $20m in almost 4,000 individual trades, that took the shares from the previous day's high of 85¢ to a low of 49¢?

Admittedly the ASX release wasn't easily digested in a quick perusal and maybe that goes back to the issue we have mentioned previously, that the ASX is becoming excessively invasive in directing what can be said, and how it is said … because it thinks it can. It is a source of great frustration for many companies. So, what is the takeaway from the announcement a week ago?

A 35% (almost free carried) interest

The development of the HPA project to a 9,000 tpa capacity can be broken down into three stages, with total capital expenditure of US$257m.

- Phase 1 - US$7m to complete engineering studies
- Phase 2 - US$50m to construct a Demonstration Plant
- Phase 3 - US$200m for a 9,000 tpa Commercial Plant

At first glance you might think that FYI is liable for 35% of US$257m, meaning $90m. However, Alcoa is picking up a large proportion of this such that the total outlay by FYI will only be $14.8m, or 6% of the US$257m. A tabular breakdown below was lifted from the presentation released by the company yesterday. You might ask why the deal has been structured in such a complicated way, but the bottom line that you should focus on is that ***FYI retains 35% interest through to production, for a net outlay of only US$14.8m i.e. 35% for only 6% of the capex***. That would seem like a very good deal to me. So, why did the market slice $100m off the market capitalisation? It beats me.

Payments from Alcoa and FYI

Phase	Cost US$	Alcoa Payment to FYI US$	Total Alcoa Payment US$	Net Payment by FYI US$
Pre		$2.1m	$2.1m	-$2.1m
1	$7m	-	$4.55m	$2.45m
2	$50m	$5m	$37.5m	12.5m
3	$200m	$68m	$198m	$2m
	$257m		$242.1m	$14.8m

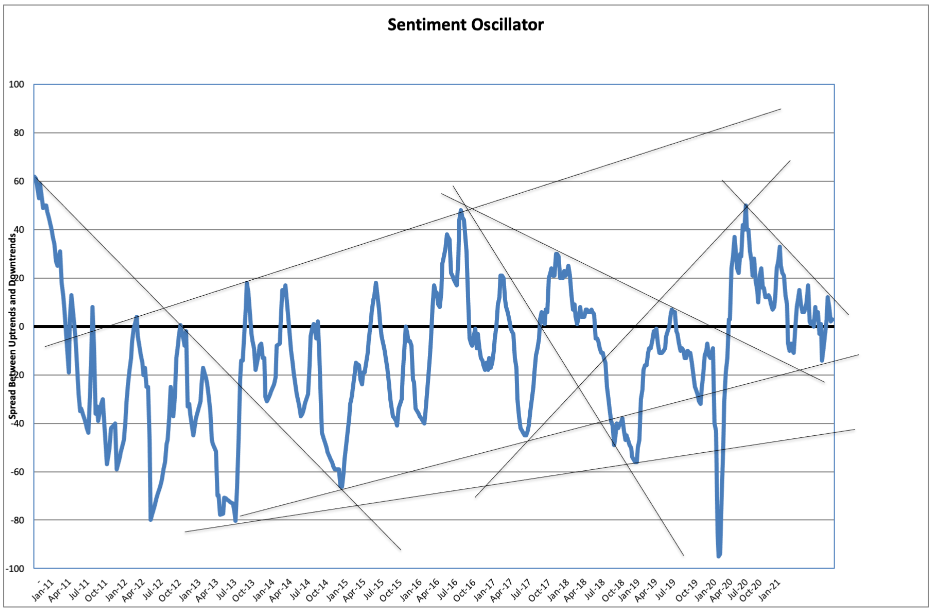
Phase 1 will commence now and take 4-6 months to complete. Phase 2 will take a further 6-7 months to provide capacity of 1,000 tpa of HPA. It is worth noting that Phase 3 will proceed concurrently with Phase 2, rather than sequentially, and it will take 18 months to deliver capacity of 9,000 tpa. This is unusual. The only logic that we can see is that the Demonstration Plant will enable delivery of product into the market ahead of the commissioning of the larger capacity. There will be efficiencies of constructing both Phases at the same time rather than sequentially, and it will enable rapid expansion of capacity. I suppose that if there are any issues with marketing, the company will find out ahead of commissioning Phase 3.

Looking more closely at how FYI was able to get such a strong JV partner on attractive terms, we note that Alcoa spent 16 months doing due diligence assessing the chemistry, the engineering and the economics. It came up with its own numbers that were somewhat more conservative, with a 20% contingency factor.

The Bottom Line

It would seem that FYI's 35% interest could generate EBITDA in the order of A$77m p.a. if the modelling assumptions hold. That places the shares on an EBITDA multiple of 2x. There is plenty of room for upside from here, at these artificially depressed prices. The current cash balance of $13m today means that FYI is fully funded. It would be very hard for FYI to have found a better JV partner, so full credit to management for having been able to close this deal.

We have added FYI and Megado Gold (MEG) to our chart coverage.



Sentiment Oscillator: Sentiment was steady over the week. There were 33% (35%) of the charts in uptrend and 33% (33%) 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		down	
Metals and Mining	XMM		collapse	
Energy	XEJ		rising	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
Alpha HPA	A4N		sideways	HPA
Adriatic Resources	ADT		on trend line	zinc, polymetalic
Alkane Resources	ALK		down	gold
Alicanto Minerals	AQI		pullback on good drill result	base metals, silver, gold

Altech Chemical	ATC		breached downtrend	HPA, anodes
Alto Metals	AME		sideways	gold exploration
American Rare Earths (was BPL)	ARR		rising	rare earths
Antilles Gold	AAU		testing downtrend	gold
Arafura Resources	ARU		rising	rare earths
Ardea Resources	ARL		sideways through support line	nickel
Aurelia Metals	AMI		still in downtrend	gold + base metals
Australian Potash	APC		down	potash
Australian Rare Earths	AR3		new high	rare earths
Auteco Minerals	AUT		resumed uptrend	gold exploration
Azure Minerals	AZS		softening	nickel exploration
BHP	BHP		collapse on oil deal, iron ore prices	diversified, iron ore
Base Resources	BSE		sideways	mineral sands
Beach Energy	BPT		rallying	oil and gas
Bellevue Gold	BGL		testing support	gold exploration
Blue Star Helium	BNL		strong rise	gas, helium
BMG Resources	BMG		surged higher	gold exploration
Boab Metals	BML		in a secondary downtrend	silver/lead
Breaker Resources	BRB		*	gold exploration
Buru Energy	BRU		gently higher	oil
Calidus Resources	CAI		rising again	gold
Capricorn Metals	CMM		surge to new high	gold
Caravel Minerals	CVV		testing downtrend	copper
Celsius Resources	CLA		breached downtrend	copper
Chalice Mining	CHN		testing uptrend again	nicklel, copper, PGMs, gold exploration
Chase Mining	CML		breached downtrend	nickel/copper/PGE
Chesser Resources	CHZ		down	gold exploration
Cobalt Blue	COB		new uptrend being tested	cobalt
Cyprium Metals	CYM		continuing down	copper
Danakali	DNK		long term downtrend	potash
De Grey	DEG		shallow downtrend	gold
E2 Metals	E2M		shallower downtrend	gold exploration
Ecograf	EGR		new downtrend	graphite
Element 25	E25		testing downtrend	manganese
Emerald Resources	EMR		rising again	gold
Euro Manganese	EMN		down	manganese
Evolution Mining	EVN		down	gold
Firefinch	FFX		strongly higher	gold
First Graphene	FGR		back to support line	graphene
Fortescue Metals	FMG		down	iron ore
FYI Resources	FYI		collapse out of uptrend	HPA
Galena Mining	G1A		breached downtrend	lead
Galilee Energy	GLL		down	oil and gas, CBM
Genesis Minerals	GMD		testing downtrend	gold

Genmin	GEN		back in downtrend	iron ore
Gold Road	GOR		weaker	gold
Hastings Technology Metals	HAS		rising again	rare earths
Hazer Group	HZR		new uptrend	hydrogen
Highfield Resources	HFR		down	potash
Hillgrove Resources	HGO		breached downtrend	copper
Iluka Resources	ILU		new high	mineral sands
Image Resources	IMA		sideways	mineral sands
Independence Group	IGO		new high	gold
ioneer (was Global Geoscience)	INR		testing uptrend	lithium
Ionic Rare Earths (Oro Verde)	IXR		recovering long term uptrend	rare earths
Jervois Mining	JVR		breaching uptrend	nickel/cobalt
Jindalee Resources	JRL		testing uptrend	lithium
Kairos Minerals	KAI		down	gold exploration
Kingston Resources	KSN		down	gold
Kingwest Resources	KWR		surge out of downtrend	gold
Latitude Consolidated	LCD		back to recent lows	gold
Legend Mining	LEG		turned down at resistance line	nickel exploration
Lepidico	LPD		breached uptrend	lithium
Lindian Resources	LIN		new high	bauxite
Lithium Australia	LIT		heavy slump	lithium
Los Cerros	LCL		down	gold exploration
Lotus Resources	LOT		rising	uranium
Lucapa Diamond	LOM		rising from lows	diamonds
Lynas Corp.	LYC		heavy fall	rare earths
Magnetic Resources	MAU		back to highs	gold exploration
Mako Gold	MKG		down again	gold exploration
Manhattan Corp	MHC		stronger out of downtrend	gold exploration
Marmota	MEU		rallying	gold exploration
Marvel Gold	MVL		new high	gold exploration
Matador Mining	MZZ		down	gold exploration
Megado Gold	MEG		down	gold exploration
MetalTech	MTC		new high then heavy fall	gold
Meteoric Resources	MEI		down heavily	gold exploration
MetalsX	MLX		new high	tin, nickel
Metro Mining	MMI		back to lows	bauxite
Mincor Resources	MCR		new high	gold/nickel
Musgrave Minerals	MGV		down	gold exploration
Neometals	NMT		new high	lithium
Northern Minerals	NTU		breached ST uptrend	REE
Northern Star Res.	NST		down	gold
Oceana Gold	OGC		testing downtrend	gold
Oklo Resources	OKU		testing downtrend	gold expl.
Orecorp	ORR		heavy correction after placement	gold development

Orocobre	ORE		new high	lithium
Oz Minerals	OZL		testing downtrend	copper
Pacific American	PAK		off its lows	coking coal
Pantoro	PNR		breached support line	gold
Panoramic Res	PAN		breakout on the upside	nickel
Peak Minerals	PUA		new low	copper exploration
Peak Resources	PEK		down	rare earths
Peel Mining	PEX		down	copper
Peninsula Energy	PEN		new high	uranium
Poseidon Nickel	POS		breached uptrend	nickel
Perseus Mining	PRU		rising	gold
Pilbara Minerals	PLS		new high	lithium
Polarex	PXX		spike higher	polymetallic exploration
Queensland Pacific Metals	QPM		new high	nickel/cobalt/HPA
Red River Resources	RVR		down	zinc
Regis Resources	RRL		new low on large financing	gold
Renergen	RLT		rising	gas, helium
RIO	RIO		testing steep downtrend	diversified, iron ore
Rumble Resources	RTR		breached downtrend	gold exploration
Salt Lake Potash	SO4		voluntary suspension	potash
St Barbara	SBM		testing downtrend	gold
Sandfire Resources	SFR		back in downtrend	copper
Santos	STO		rising	oil/gas
Saturn Metals	STN		breached short term uptrend	gold exploration
Sheffield Resources	SFX		breached uptrend	mineral sands
St George Mining	SGQ		risen to resistance line	nickel
Silex Systems	SLX		heavy correction	uranium enrichment technology
Silver Mines	SVL		down	silver
Sipa Resources	SRI		testing downtrend	general exploration - Ni,Cu, Co, Au
South Harz Potash	SHP		surge higher	potash
Stanmore Coal	SMR		new high	coal
Strandline Resources	STA		pullback	mineral sands
Sunstone Metals	STM		surged higher	exploration
Talga Resources	TLG		testing downtrend	graphite
Technology Metals	TMT		rising	vanadium
Tesoro Resources	TSO		new low	gold exploration
Theta Gold Mines	TGM		testing downtrend	gold
Thor Mining	THR		strong rise	gold exploration
Tietto Minerals	TIE		strong rise	gold
Titan Minerals	TTM		sideways	gold
Venturex	VXR		down	zinc
Vimy Resources	VMY		surge through downtrend	uranium
West African Resources	WAF		struggling at resistance line	gold
Westgold Resources	WGX		turned down at resistance line	gold

West Wits Mining	WWI		strong rally	gold
Western Areas	WSA		surge higher	nickel
Whitehaven Coal	WHC		surge to new high	coal
Wiluna Mining	WMC		testing downtrend	gold
Yandal Resources	YRL		wedge forming	gold exploration
Zenith Minerals	ZNC		placement and downtrend	gold exploration
Zinc Mines of Ireland	ZMI		softening	zinc
Totals	36%	51	Uptrend	
	33%	47	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	**29**	**20.3%**	
Gold Exploration	**26**	**18.2%**	
Nickel	**13**	**9.1%**	
Copper	**10**	**7.0%**	
Lithium	**7**	**4.9%**	
Rare Earths	**8**	**5.6%**	
Oil/Gas	**6**	**4.2%**	
Iron Ore/Manganese	**6**	**4.2%**	
Zinc/Lead	**5**	**3.5%**	
Mineral Sands	**5**	**3.5%**	
Potash/Phosphate	**5**	**3.5%**	

Uranium	**4**	**2.8%**	
Graphite/graphene	**4**	**2.8%**	
Coal	**3**	**2.1%**	
Bauxite	**2**	**1.4%**	
Silver	**2**	**1.4%**	
Cobalt	**1**	**0.7%**	
Tin	**1**	**0.7%**	
Diamonds	**1**	**0.7%**	
Other	**5**		
Total	**143**		

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