**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

10 September 2022 *Chart comments as at Friday's Close* Analyst : Warwick Grigor

# Peninsula Energy is leading the race to new uranium production

This week we have taken a break from commenting on short term stock market influences caused by speculation regarding inflation and interests rates. Rather, we have stepped back to look at the bigger picture. Uranium and nuclear power are becoming increasingly important elements in the quest for zero emissions, so we are seeing continuing support for ASX-listed uranium companies. However, having shares in a uranium company doesn't mean you will make money beyond near term speculation. Longer term investors have a smaller range of stocks from which to select. Peninsula Energy is one of the few companies that offer opportunity in both time frames so we have provided an update on that company.

We are going through monetary tightening and there is increasing speculation that we will transition into a recessionary period, which traditionally causes a softening of metal prices. However, there are more recent influences at work that mean the traditional methods of analysing mining stocks are less relevant. Think the alternative energy push and global political power struggles. These are the new imperatives that we have to take into account in looking at future movements in mining and resource stocks.

## *Peninsula Energy is well ahead of the pack*

Stock market punters frequently underestimate the risks involved in taking projects from the pre-development stage to actual commercial production. Gold projects are usually the easiest to estimate but uranium projects are amongst the most difficult due to a range of factors that include regulatory approvals, marketing of product and project specific metallurgy. Anyone who thinks it is an easy path to production should think again.

It is with this recognition in mind that Peninsula stands out as the earliest, lowest risk entry in the uranium producing sector at present. It has been along the path and has already overcome all material speed bumps. Now it is ready to push the button to restart a long life uranium mine in Wyoming, USA. That can happen within the next six months.

## *Being able to sell the stuff is a challenge*

The world of uranium buyers is limited to nuclear power utilities and these are very conservative. There are probably not more than 40 buyers in the market. None of them like to be dependent upon a small number of suppliers. They want diversity of supply and frequently limit individual contracts to 200-300,000 lbs. They are also cautious about buying uranium from single mine companies that are yet to prove their reliability. That means that new producers have to deal with a number of buyers. Contracts take time to negotiate in a process that I had first hand experience of when Peninsula was in the pre-production phase some years back (I was a director of Peninsula at the time).

## *Peninsula has been in the market since 2016*

Peninsula has been an active and reliable participant in the uranium market since 2016. For some of this time it was selling from its own production, whilst at other times it was a buyer of uranium on the spot market for delivery into its sales book. Even when mine production was suspended it maintained a good status in dealing with the utilities. That makes its easier to negotiate additional contracts as it prepares to recommission the Lance ISL Mine.

Over the last few years the Company has been earning revenue of US$8-9m p.a. selling into its sales book with pounds being bought on the spot market at lower prices. Back in mid 2021, it purchased another 300,000 lb at US$31/lb. Currently, Peninsula has sales contracts in place out to 2030, covering 400-450,000 lb of uranium, at estimated prices of US$56-58/lb.

## *DFS confirms a restart will be very viable*

Peninsula released its DFS in August 2022, with all the parameters coming up positive. It is now expected to commit to the reopening of the mine using low pH recovery techniques that will be more effective than the previously employed alkaline leach method.

The capex for the Stage 1 restart is only US$60m (to achieve positive cash flow) over a two year period, to get to a production rate of 820,000 lbs p.a. C1 cash costs will be very low at US$16.34/lb, but AISC and AIC numbers are US$39.08/lb and US$45.74/lb respectively. Production will increase to 2 Mmlb p.a. in Stage 2 .

You need to remember that cash flow from ISL operations takes time to build up, a feature that is similar to heap leach operations in a gold mine. Also, capital expenditure estimates need to include progressive well field development costs throughout the life of an operation. That explains why the AIC figure is so much higher than C1 cash costs. Total capex over a 14 year period is actually US$290m, but most of this will be funded by cash flow from operations.

The life of the project based on Ross and Kendrick locations is currently 14 years, but this will be extended as Barber's resources are upgraded. Previous studies had included Barber and a maximum production rate of 3 Mmllb p.a., but the increasingly stringent reporting standards in North America, where the project is located, preclude the inclusion of Barber until additional confirmatory drilling is undertaken. This would cost around $10-20m, to be incurred over a 10 year period. Nevertheless, it is pretty safe for us to assume this is all procedural.

## *The strategic nature of US uranium production*

Russia and its satellite states have been big suppliers of uranium to the USA in recent years but attitudes are changing. Increasing nationalistic sentiment is leading to the US wanting home grown uranium supplies, so

Peninsula is well placed in this regard. If the US Government does build a US$1.5bn nuclear fuel stockpile, what better place to source it from than Wyoming?

### *The Bottom Line*

Peninsula is the most de-risked, pre-production uranium company in the market having solved the technical issues and cleared the regulatory hurdles. There should not be any undesirable surprises from this point. It will need US$60m over the next couple of years as it ramps up production to the point of positive cash flow, but as at 30 June it has US$7.5m in the bank and about US$15m in uranium inventories. The additional funding is only incremental and not an obstacle.

## *Nuclear power is a developing Achilles Heel*

As we know, nuclear power could go a long way to solving the issues of global warming caused by excess carbon emissions, but how long will it take for activists to acknowledge this view? Then how long will it take for the politicians to act upon it?

According to an article in Foreign Affairs, "… *global nuclear energy generation will need to double between now and 2050 for the world to achieve net-zero emissions*" *pp. 73-43, Jan/Feb 2020*. There were 72 nuclear reactors planned as of 2018, with more than 50% being built by Russian companies and 20% by Chinese ones. Only 2% were being built by US companies. Here is another barrel over which the communists and fascists can hold the Western world.

The USA in particular needs to lift its game or risk another Achilles Heel in its quest to maintain dominance on a global scale. Global politics revolve around energy, be it traditional sources such as coal, gas and oil, or other sources. Nuclear power will become increasingly important if zero emissions are anything more than a fantasy. Failure to implement an expansive nuclear policy in the near term will lead to long term failure. That is why the uranium sector is attracting so much speculative interest now, and why the uranium price has entered a new bull phase.

## *Traditional metals price cycle is secondary now*

The traditional method of estimating future metals prices, and therefore share prices of mining companies, has historically been intimately related to the business cycle. Periods of expansion and strong economic activity would lead to inflation which would be controlled by higher interest rates, as we are seeing now. Business activity would then slow and the subsequent period of contraction would lead to reduced demand for metals and commodity prices. Eventually the recessions would end and the economy would turn up again. That is the well understood business cycle but the dynamics are changing.

The push for alternative energy sources and the reversal of globalisation trends with the increasing aggression of non-democratic states such as China and Russia demand that we analyse commodity price movements differently. There are now two imperatives. The first is the challenge to produce the volumes of minerals needed for the supply chain of antimony, cobalt, copper, lithium, nickel and rare earths needed for various clean energy technologies. Greenies take note - we need more mining, much more, that we have now.

The second challenge is for Western democracies to free themselves from the highly vulnerable position of almost complete reliance of China, and to a much lesser extent Russia, for supply chains of technologies and alternative energy products. Until they do they run the risk of China using its capabilities to hold the world to ransom, as Russia is doing with gas supplies to Europe today.

China is working diligently to gain control of the supply of minerals from many African states, viewing that continent as one great big quarry to satisfy its demand for resources. China dominates the processing and refining of critical minerals with antimony and rare earths as outstanding examples. It accounts for two-thirds of the world's poly silicon and 90% of semiconductor wafers used to make solar power cells.

The ravenous appetite for alternative energy input materials is not going to be affected by the business cycle. It is dominated by the political and social agendas that override economics and common sense. Whether or not the climate change activists have got it right, we are all caught up in the rush for new supplies of a range of commodities that is exacerbated by vulnerability to an increasingly hostile Chinese Communist Party that is well aware of our Achilles Heel. That is why we, as investors, should be seeing expanding opportunities in mining and mining shares beyond historical cyclical movements.

## *Gascoyne rare earths raisings*

The ducks are quacking so the rare earths companies continue to raise money. The flavour of the month continues to be the Chalba Shear Zone in WA's Gascoyne region. Hastings Technology Metals (HAS) has followed up on the $150m convertible note deal with Wyloo with a $110m placement at $4.40 a share. That caused its share price to give back the gains it had made on the earlier announcements. It fell by $1.07 or 20%. One may suggest it has probably seen its peak share price for some time.

Dreadnought saw its market capitalisation fall from $425m to $346m, or 14%, on an announcement that 35 out of 120 RC holes confirmed thick, high-grade rare earth mineralisation, hosted in monazite, at its Yin discovery. Maybe the market was looking for more judging by the market volume and the share price fall.

Dreadnaught described its project as being analogous to Hastings' Yangibana Project, 25 km to the NW, where it has 27.4 Mt at 0.97% TREO at a grade of 0.33% $Nd_2O_3$+$Pr_6O_{11}$. It says Yangibana is unique due to its high proportion of NdPr, but Dreadnought is obviously hoping to challenge this uniqueness.

Kingfisher Minerals (KFM) went into a trading halt on Friday as it sought to top up its cash levels following the enormous run in its share price. It was widely expected to do so. Terms are 9 million shares at 42.5¢ to raise $3.825m, with 1 for 4 options exercisable at 70¢

*Disclosure: Interests associated with the author own shares in Kingfisher.*

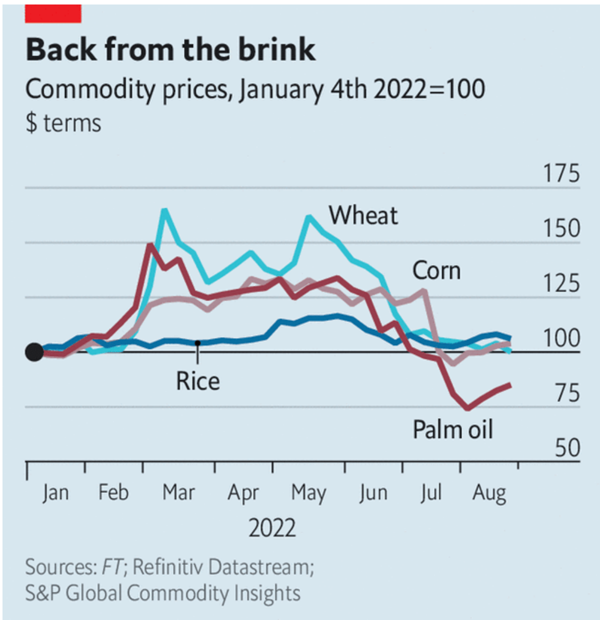
## *The impact of speculators in markets*

When I was a student of economics in high school I was taught that speculators were of benefit to markets as they help to add liquidity. They certainly do that, but what about when they become so prevalent that they actually distort the market?

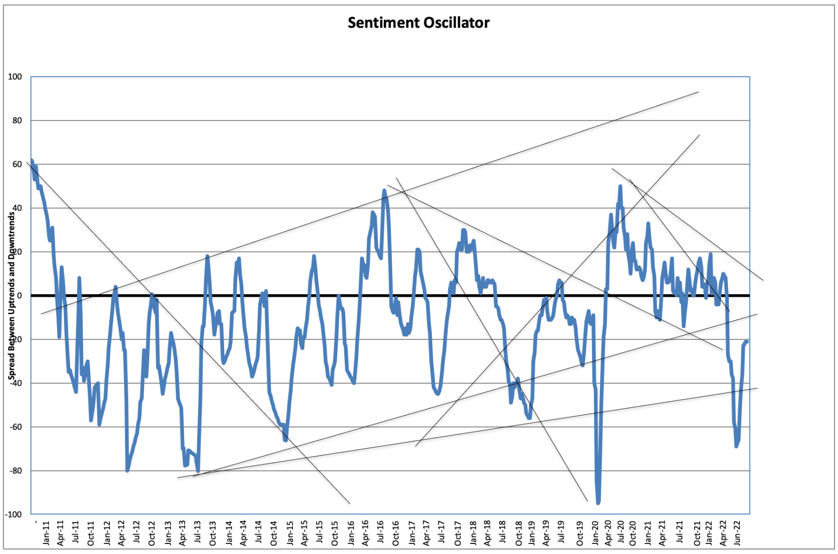
Over time the velocity and volatility of markets have been increasing due to many factors. The availability of greater pools of money for speculation, derivatives and the reduction in transaction costs have been major contributors to this trend. We see it in the stock markets every day but this increase in activity also affects commodity markets. The practical effect is a distortion of pricing signals that are supposed to help match supply and demand over time.

A good example of this in real life has been the performance of prices in some of the basic food commodities. The chart below, reproduced from The Economist, shows wheat prices spiking more than 50% on the outbreak of the Ukraine War. The panic this caused was disruptive at the time but more recently these commodity prices have slumped back to where they started from.

The point is simple. Speculation causes volatility and trading opportunities in the short term but spectators operate according to limited frames. As it is with commodities, so it is with our stock market. Traders must remember to take sensible profits along the way. Investors with large sums to deploy need to look beyond the noise made by speculators and rely more on strategic, fundamental analysis that assists the deployment of large sums of capital.




The Economist




**Sentiment Oscillator:** Sentiment was steady over the week. There were 22% (23%) of the charts in uptrend and 43% (44%) 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 | | testing support line | |
| Metals and Mining | XMM | | retaking recent falls | |
| Energy | XEJ | | new high | |
| Information Technology | XIJ | | breached ST uptrend | |
| **Stocks** | **Code** | | **Trend Comment (updated comments in bold)** | **Main Interest** |
| A-Cap Energy | ACB | | strongly higher | uranium |
| Alpha HPA | A4N | | breached downtrend | HPA |
| Adriatic Resources | ADT | | approaching resistance line | zinc, polymetallic |
| Advance Metals (was Pacific American) | AVM | | down | coal, gold exploration |
| Alkane Resources | ALK | | testing downtrend | gold |
| Alicanto Minerals | AQI | | new low | base metals, silver, gold |
| Altech Chemical | ATC | | bouncing off lows | HPA, anodes |
| Anteotech | ADO | | new low | silicon anodes, biotech |
| Alto Metals | AME | | at resistance | gold exploration |
| American Rare Earths | ARR | | fallen back to resistance line | rare earths |
| Antilles Gold | AAU | | still down | gold |
| Arafura Resources | ARU | | good bounce | rare earths |
| Ardea Resources | ARL | | testing support | nickel |
| Aurelia Metals | AMI | | new low | gold + base metals |
| Australian Potash | APC | | sideways through downtrend | potash |
| Australian Rare Earths | AR3 | | at lows | rare earths |
| Auteco Minerals | AUT | | recovering | gold exploration |
| Arizona Lithium | AZL | | failed at resistance line | lithium |
| Azure Minerals | AZS | | failing at resistance line | nickel exploration |
| BHP | BHP | | back to lows after dividend payment | diversified, iron ore |
| Beach Energy | BPT | | new uptrend confirmed | oil and gas |
| Bellevue Gold | BGL | | breached downtrend | gold exploration |
| Benz Mining | BNZ | | breached downtrend | gold |
| Black Cat Syndicate | BC8 | | new uptrend commenced | gold |
| Blue Star Helium | BNL | | sideways through downtrend | gas, helium |
| BMG Resources | BMG | | down | gold exploration |
| Boab Metals | BML | | failed at resistance line | silver/lead |
| Breaker Resources | BRB | | testing downtrend | gold exploration |
| Buru Energy | BRU | | sideways | oil |
| Calidus Resources | CAI | | new low | gold |
| Capricorn Metals | CMM | | slump | gold |
| Caravel Minerals | CVV | | at resistance | copper |
| Castile Resources | CST | | down | gold/copper/cobalt |
| Celsius Resources | CLA | | sideways at lows | copper |

| | | | | |
|---|---|---|---|---|
| Chalice Mining | CHN | | down | nickel, copper, PGMs, gold exploration |
| Chesser Resources | CHZ | | new low | gold exploration |
| Cobalt Blue | COB | | rising | cobalt |
| Cyprium Metals | CYM | | new low | copper |
| Dateline | DTR | | testing downtrend | rare earths |
| De Grey | DEG | | breaching resistance line | gold |
| E2 Metals | E2M | | new uptrend commenced | gold exploration |
| Ecograf | EGR | | surge out of downtrend | graphite |
| Element 25 | E25 | | new uptrend commenced | manganese |
| Emerald Resources | EMR | | trying to recapture uptrend | gold |
| Empire Energy | EEG | | new uptrend commenced | gas |
| Euro Manganese | EMN | | surge higher | manganese |
| Evolution Mining | EVN | | new low | gold |
| Firefinch | FFX | | suspended | gold |
| First Graphene | FGR | | breached downtrend | graphene |
| Fortescue Metals | FMG | | failed at resistance line | iron ore |
| FYI Resources | FYI | | sideways through downtrend | HPA |
| Galena Mining | G1A | | testing steepest downtrend | lead |
| Galilee Energy | GLL | | softer | oil and gas, CBM |
| Genesis Minerals | GMD | | down | gold |
| Genmin | GEN | | rising | iron ore |
| Gold Road | GOR | | breached downtrend | gold |
| Great Boulder Resources | GBR | | but approaching resistance line | gold exploration |
| Hastings Technology Metals | HAS | | surge higher then fall on placement | rare earths |
| Hazer Group | HZR | | still in downtrend | hydrogen |
| Heavy Minerals | HVY | | still in downtrend | garnet |
| Highfield Resources | HFR | | new low | potash |
| Hillgrove Resources | HGO | | breached downtrend | copper |
| Iluka Resources | ILU | | testing resistance line | mineral sands |
| Image Resources | IMA | | down | mineral sands |
| ioneer (was Global Geoscience) | INR | | testing resistance line | lithium |
| Ionic Rare Earths | IXR | | rising again | rare earths |
| Jervois Mining | JVR | | breached downtrend | nickel/cobalt |
| Kaiser Reef | KAU | | recovering from lows | gold |
| Kingston Resources | KSN | | improving | gold |
| Krakatoa Resources | KTA | | breaching downtrend | rare earths |
| Kingfisher Mining | KFM | | down | rare earths |
| Kingwest Resources | KWR | | good rally | gold |
| Legend Mining | LEG | | new low | nickel exploration |
| Lepidico | LPD | | recovering from lows | lithium |
| Lindian Resources | LIN | | another new high | bauxite |
| Lion One Metals | LLO | | breached uptrend | gold |
| Los Cerros | LCL | | new uptrend breached | gold exploration |
| Lotus Resources | LOT | | sideways through downtrend | uranium |

| | | | | |
|---|---|---|---|---|
| Lucapa Diamond | LOM | | new uptrend forming | diamonds |
| Lunnon Metals | LM8 | | rising | nickel |
| Lynas Corp. | LYC | | slump | rare earths |
| Magnetic Resources | MAU | | new low | gold exploration |
| Mako Gold | MKG | | failed at resistance line | gold exploration |
| Marmota | MEU | | sideways | gold exploration |
| Marvel Gold | MVL | | new low | gold exploration |
| Matador Mining | MZZ | | new low | gold exploration |
| Mayur Resources | MRL | | strong rise from lows | renewables, cement |
| Meeka Gold | MEK | | surge on drill results -capital raising | gold |
| Megado Gold | MEG | | back to downtrend | rare earths, gold exploration |
| MetalsX | MLX | | new low | tin, nickel |
| Metro Mining | MMI | | slump out of new uptrend with a placement | bauxite |
| Mincor Resources | MCR | | recovering from lows | gold/nickel |
| Mithril Resources | MTH | | down | gold/silver |
| Musgrave Minerals | MGV | | testing downtrend | gold exploration |
| Nagambie Resources | NAG | | stronger | gold, antimony |
| Neometals | NMT | | rising | lithium |
| Northern Star Res. | NST | | strong rise | gold |
| Nova Minerals | NVA | | breached resistance - new upend commenced | gold exploration |
| Orecorp | ORR | | at lows | gold development |
| Oz Minerals | OZL | | new high on BHP takeover moves | copper |
| Pantoro | PNR | | new low | gold |
| Panoramic Res | PAN | | down | nickel |
| Peak Resources | PEK | | rising | rare earths |
| Peel Mining | PEX | | breached steepest downtrend | copper |
| Peninsula Energy | PEN | | sideways | uranium |
| Poseidon Nickel | POS | | still down | nickel |
| Perseus Mining | PRU | | down | gold |
| Provaris Energy | PV1 | | rising | hydrogen |
| PVW Resources | PVW | | breached downtrend | rare earths |
| QMines | QML | | new low | copper |
| Queensland Pacific Metals | QPM | | sideways | nickel/cobalt/HPA |
| Red River Resources | RVR | | new low | zinc |
| Regis Resources | RRL | | testing downtrend | gold |
| Renergen | RLT | | testing downtrend | gas, helium |
| Resource Mining Corp. | RMI | | sideways | nickel exploration |
| RIO | RIO | | new low | diversified, iron ore |
| Rumble Resources | RTR | | secondary downtrend | gold exploration |
| S2 Resources | S2R | | sideways | gold exploration |
| St Barbara | SBM | | on support line | gold |
| Sandfire Resources | SFR | | heavy fall | copper |
| Santos | STO | | uptrend | oil/gas |
| Saturn Metals | STN | | sideways | gold exploration |

| | | | | |
|---|---|---|---|---|
| Silex Systems | SLX | | new high | uranium enrichment technology |
| Silver Mines | SVL | | down | silver |
| South Harz Potash | SHP | | still in downtrend | potash |
| Southern Cross Gold | SXG | | pullback | gold exploration |
| Stanmore Coal | SMR | | surge higher | coal |
| Strandline Resources | STA | | strong rise | mineral sands |
| Sunstone Metals | STM | | downtrend | exploration |
| Talga Resources | TLG | | testing steepest downtrend | graphite |
| Technology Metals | TMT | | down | vanadium |
| Tesoro Resources | TSO | | new low | gold exploration |
| Theta Gold Mines | TGM | | strong rise from lows - at resistance | gold |
| Thor Mining | THR | | sideways through downtrend | gold exploration |
| Tietto Minerals | TIE | | breaching downtrend | gold |
| Turaco Gold | TCG | | bouncing from lows | gold exploration |
| Vanadium Resources | VR8 | | **testing downtrend** | vanadium |
| West African Resources | WAF | | holding uptrend | gold |
| Westgold Resources | WGX | | down | gold |
| West Wits Mining | WWI | | new low | gold |
| Whitehaven Coal | WHC | | new high | coal |
| Yandal Resources | YRL | | new low | gold exploration |
| Zenith Minerals | ZNC | | breached steepest downtrend | gold exploration |
| Zinc Mines of Ireland | ZMI | | new low | zinc |
| Totals | 22% | 32 | Uptrend | |
| | 43% | 62 | Downtrend | |
| | | 144 | 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 | **32** | **22.2%** | |
| Gold Exploration | **22** | **15.3%** | |
| Rare Earths | **12** | **8.3%** | |
| Nickel | **11** | **7.6%** | |
| Copper | **9** | **6.3%** | |
| Oil/Gas | **8** | **5.6%** | |
| Iron Ore/Manganese | **6** | **4.2%** | |
| Zinc/Lead | **5** | **3.5%** | |
| Lithium | **4** | **2.8%** | |
| Uranium | **4** | **2.8%** | |
| Graphite/graphene | **3** | **2.1%** | |
| Potash/Phosphate | **3** | **2.1%** | |
| Coal | **3** | **2.1%** | |
| Mineral Sands | **3** | **2.1%** | |
| Silver | **2** | **1.4%** | |
| Bauxite | **2** | **1.4%** | |
| Vanadium | **2** | **1.4%** | |
| Cobalt | **1** | **0.7%** | |
| Tin | **1** | **0.7%** | |
| Diamonds | **1** | **0.7%** | |
| Other | **10** | | |
| Total | **144** | | |

**FEC Disclosure of Interests: It is a requirement of ASIC that holders of AFS licences prominently disclose any conflicts of interest. At all times readers should be aware that Far East Capital Ltd is an active investor. It shares its research and opinions free of charge to other investors and it aims to do so on an ethical basis. Accordingly, when it is writing about stocks in which it holds interests, these will be disclosed. The author is chairman of First Graphene and one of the largest shareholders, through a number of entities. Over the last three years FEC has received capital raising fees from a number of companies but it does not receive payment for research. See individual disclosure notes in the body of the Weekly where they are relevant. Its primary business is investing and managing its own money, but it does occasionally raise money for resource companies.**