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

The Mining Investment Experts

Weekly Commentary

15 October 2022 *Chart comments as at Friday's Close* Analyst : Warwick Grigor

The inflation narrative is changing

Living with inflation is easier if the rules change

Just as we are seeing signs that the recent interest rate rises are starting to have the desired effect - a slowing of the economy - we new seeing that the discussion around inflation is changing. It is taking a different tone. These changes are part of our culture in that nothing stays the same forever as people seem to need variety over time rather than complete stability.

We have gone through a period of zero to ultra low interest rates bought upon by fears of global financial crashes, and financial markets embraced this condition of low rates as it led to inflation in financial assets and property prices rather than goods and services, making fortunes for many market players. Those who had money found it was easy to make more.

Yet, at the time, the more conservative economists warned that once interests rate got so low, the central banks were backing themselves into a corner when it came to exercising effective monetary policy. There was always going to have to be an upwards adjustment to interest rates, just as we are experiencing now.

We are participating in a confluence of events that is motivating changes in thinking. Just like in the 1970s, we have oil and energy prices being bolstered by war, and that is feeding inflation. In addition, this time around, we are dealing with the consequences of Covid induced disruption to supply lines and labour shortages. These are not normal times.

The challenge right now is to contain inflation so that it doesn't get out of hand. In the prior week there had been optimism that containment was indeed happening, with the market jumping in response, but that glimmer of hope lost momentum last week.

What is more realistic? < 2%, or 2-4%

Interest rate rises over recent months have put us back in an environment where central banks have more room to move - up or down - depending on whether the economy needs boosting or dampening. Central banks can take back the initiative. We are seeing discussions about whether the inflation rate should be the primary concern of the central banks. More precisely, it is about the merit of keeping inflation below 2% p.a.

If the targets are too hard to achieve, the obvious solution when seeking gratification is to amend them. Make them more tangible. That is what central banks are starting to consider. It looks like inflation will be above 2% p.a. for the foreseeable future, so the bankers are telling us that there is nothing magical about that figure. They are suggesting that the range of 2-4% is more acceptable and manageable as the they try to deflect criticism.

How far will this market fall?

Time cures everything, and that applies to bear stock markets, but how much time is needed with this one. If you look at the Sentiment Oscillator graph over the page you will see that sentiment has hit a trend line that should be seen as a marker for the bottom, but note that there have been two recent breaches of the same line when panic was setting in. So, perhaps this is a point of support to consider but not take for gospel.

I keep a table of 150 stocks that I was charting 10 years ago, to remind me of how far stocks can fall in a bear market. From April 2010 until June 2013, the average fall in share prices was 80%. Many prices actually fell by more than 90%. We are approaching this condition now but it has happened much faster in this cycle, so we won't have to wait as long before we hit the bottom.

121 Mining Conference Standouts

Conferences where you can spend an intense 30 minute session with companies, rather than sit in an auditorium and listen to a procession of 15 minutes sanitised presentations, offer the best use of time for analyst and investors. You get the chance to ask curly questions and interrogate companies beyond what can normally be achieved.

Last week, at the 121 Conference, there was a mixture of ASX and TSX-listed companies. There were quite a few recent IPOs that have seen their share prices fall by 50% or more from the IPO price. For many of these their most valuable asset is the cash that they have left.

Emerald Resources is head and shoulders higher

The most compelling company that I saw was Emerald Resources (EMR), the 100,000 oz p.a. gold producer in the unlikely SE Asian country of Cambodia. It has successfully commissioned the open pit Okvau Gold Mine with a life-of-mine, all in sustainable cost of US$754/oz.

We may often place a country discount for an operation in an exotic country like Cambodia, and it looks like the market continues to do this as it hasn't factored in the expansion upside.

On the flip side is the premium that should be given to Emerald for its top shelf management quality. Morgan Hart is from the Nick Giorgetta school of gold mining with plenty of experience in more difficult jurisdictions.

The market capitalisation of Emerald is $676m. Capricorn Metals (CMM), also in the Giorgetta sphere, is capitalised at $1.2bn for a 120,000 oz p.a. at the Karlawinda gold mine in WA. Perhaps the biggest point of difference between the two companies is that Karlawinda is processing 0.9 gpt dirt whereas Emerald is up round 1.8-2 gpt.

Emerald has been reporting some very high grade drill results from the Memot project that is 150 km from the

Okvau mine. This will be a narrow vein high-grade gold mine that will produce free milling gold in a concentrate that could be trucked to Okvau for final processing. There is potential for 100,000 oz p.a. from a development here.

As a counter to the Cambodian production, Emerald is drilling out the Bullseye prospect in WA, that is shaping up as another 100,000 oz p.a. producer. While we await a resource statement next year, we can speculate that there will be 1 Moz at 1.8 gpt in an open pit with a 5-6:1 waste to ore ratio. So, Emerald has a good pipeline of new projects to give it a strong growth curve.

Emerald is an institutional quality gold producer that you can buy now and just forget about. It is that good. Next time you look at it, a year or two in the future, it may be selling at market capitalisation of more than A$2bn.

Podium is a PGE play worth considering

I wasn't aware of Podium Minerals (POD) before last week, but now that I am, I will watch it closely. The Company IPO'd in 2018, on the back of the Parkes Reef PGM project 80 km SW of Meekatharra in WA. It is exploring a 15 km long target that has 52.2 Mt at 1.64 gpt 5E PGM, containing 3 Moz. The steeply dipping, 15m wide reef has the potential to support more than one mine.

There have been a number of PGM prospects in Australia over the last few decades, but they have not come to much. Often the stumbling block has been complicated metallurgy and the cost in shipping concentrates to South African smelters. We still don't have a commercial PGM mine in Australia, but Challice's huge Julimar discovery looks set to change this.

Podium wants to throw its hat into the ring as a candidate for PGM as well. Its grade is lower and it still needs to devise an economic process route, but there is plenty of enthusiasm in the Company. It hopes to have a scoping study out next year. We will revisit this Podium when time permits, for a more detailed commentary.

Southern Hemispheres is reviewing large copper project in Chile

Southern Hemisheres (SUH) is another junior with a large copper porphyry/breccia project in South America - in Chile, to be precise. The Lhahuin copper/moly project has been undergoing a reinterpretation more recently as the extensive database comprising 20 km of diamond core has been relogged.

Back in 2013, under earlier management, the Company announced Measured and Indicated Resources of 149 Mt at 0.29% Cu, 0.12 gpt Au and 0.008% Mo, for a CuEq grade of 0.41% Cu. There hasn't been much action since then, but the new management is having a good look to see how the resources can be optimised.

SUH now finds itself with a market capitalisation of only $7.7m and as you will find with most juniors, not enough cash. It has a large land position within the newly recognised NW metallogenic domain which hosts the giant Los Pelambres Copper Mine. The challenge now is to raise funds and decide which of its many drill targets should be drilled first. There is plenty of leverage to good drill results, coming from such a low base.

Kingwest Resources is taking stock

KWR has been sold down heavily in recent months, along with everything else, but there are some company-specific factors to take into account.

When it first announced the Sir Laurance gold discovery in 2021, at the bottom of the sediments in Lake Goongarie, we all got excited at the prospect of another large system that had the dimensions to host a multi-million ounce discovery. It still holds the potential, but delivery is taking longer than most punters are prepared to wait.

Subsequent drilling has come up with mixed results that confirm there is gold down there, but the Company has been unable to put these intercepts into a robust model yet. The large scale structural model is supportive of the interpretation, but there needs to be more information on a 200m x 100m scale. The trouble is, that requires money.

Drilling through the lake is twice as expensive as drilling on dry land, and it is slow. It is difficult for a junior company to finance the work required, especially when the sector is going through a bear market. So, the focus is now on monetising the 500,000 oz resource at Menzies, through some sort of tolling or joint venture agreement. Maybe KWR can come up with a deal that delivers $5m in cash flow.

The Company still has a number of good exploration targets outside of the Lake area, but Sir Laurance itself may require the introduction of a joint venture partner with deep pockets.

We shouldn't read too much into the departure of the CEO, Ed Turner. People move on from time to time, often for personal reasons. He did a good job in finding Sir Laurance in the first place, but he leaves it for the next guy to carry on.

Given the difficulty of raising money at the moment, all in the junior sector have to be careful with their budgets. KWR had $1.8m in the kitty at 30 June. Add the $2.5m raised in the SPP, and subtract the expected outflow of $1.4m for the September quarter, and you get a figure of $2.9m for 30 September. That, and cash flow from Menzies, should keep the wheels turning even if only modestly. The market capitalisation of $10m is not unreasonable at the moment.

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

Lindian's Kangankunde rare earths deposit will be many times larger

As we are continuing to uncover more historical information on Kangakunde we are getting a better understanding of the potential size of the orebody. The historical figures refer to a non-JORC resource of about 2.4 Mt, but it is important to understand that this refers to the very high-grade mineralisation that is higher than 4% REO. We are dealing with something substantially bigger when you drop the grade.

There is another style of mineralisation that grades in the order of 1% REO that hasn't yet been mentioned. Both grade domains need to be considered in the light of modern day rare earth economics, 40 years after the work done by BRGM.

Credible work done by BRGM

In the late 1980s, BRGM, an arm of the French government, undertook systematic exploration involving trenching, the re-opening of previous exploration adits and a 25 hole diamond drilling program for 2,170m of core. A 30 tonne bulk sample was mined from both near surface trenches and the exploration drives underground. The test work demonstrated that a simple gravity separation plant could achieve 60% recovery into a concentrate. The quality and the findings of the work was sufficient to attract the interest of Lynas at the time, but it couldn't find a way to secure equity in the project.

BRGM was focusing on the > 4% domain that showed widths generally in the range of 1 to 5m, but with some large ones like 11m at 4.6%, 21m at 4.8%, 38m at 4.8% and 42m at 4.11%, (grades based on monazite grade x 60%).

It is quite common for mineralised systems to have narrower, high grade zones surrounded by much more extensive lower grades. Explorers get drawn to the excitement of high grades in the first instance, but when planning for economies of scale, engineers will bring the more extensive mineralisation. It is necessary to look at the big picture.

Size relative to other developments

If you consider that Hastings Technology's Yangibana Project in WA is based on Total Mineral Resources of 27.4 Mt at 0.97% TREO, and a Proven and Probable Reserve of 16.7 Mt at 0.95% TREO, anything grading around 1% is prima facie economic. Of course, there are many other factors to consider apart from grade, but at least 1% is in the ball park.

That brings us to the potential tonnage at Kangankunde. How big could it be? Lindian is confident that the high grade zones will be much larger than the 2.4 Mt previously mentioned but does that mean 10 Mt, or 20 Mt. Both of these could be in the ball park. Add in the 1% material and we could be easily talking 50-100 Mt, but we have to wait until Lindian announces an Exploration Target to have a better idea.

Grade is king

We often hear promoters quote this line, and to a large extent it is true. Economics and the NPV of any project improve with the high grades being processed in the early years of an operation. While it is a positive to be talking about a 50 year mine life, it is the first decade that is the most important. That is what defines the earnings power. Here, at Kangankunde, the probability of a decade of grade four times that of Yangibana is a great selling point that more than compensates for any perceived geopolitical risk of operating in Malawi.

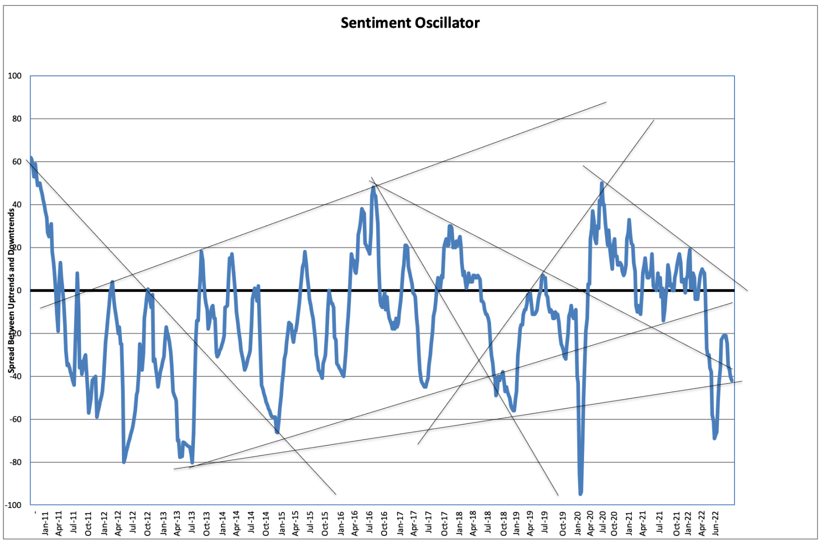
Yangibana has a big capex number of around $500m that involves downstream separation with greater technical and commissioning risk. It is still two years away from commissioning.

It will be interesting to see how positively the high grade at Kangankunde affect the economics, especially the ability to have a simpler project that produces concentrates with high profit margins at much lower technical and processing risk. It should be an easily saleable concentrate due to the extremely low radiation levels at around 30 ppm combined uranium and thorium.

Drilling is the next step

Lindian is planning to commence the first modern drill program at Kangankunde in November, with 10,000m of RC and 2,500m of diamond drilling scheduled. This will be the first step in getting to the position of being able to calculate an Exploration Target, and then a JORC resource.

Disclosure: Interests associated with the author own shares in Lindian Resources. Capital raising fees have been earned.



Sentiment Oscillator: Sentiment was slipped over the week. Touching the trend line, as it is, suggested this might be the bottom … at least for a while. There were 14% (16%) of the charts in uptrend and 56% (53%) 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		surge higher, but still in downtrend	
Metals and Mining	XMM		hitting resistance line	
Energy	XEJ		spiked higher	
Information Technology	XIJ		down	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
A-Cap Energy	ACB		breached support line	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		strongly higher	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		testing resistance line	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		breaching uptrend	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		gently lower	oil
Calidus Resources	CAI		new low	gold
Capricorn Metals	CMM		back into downtrend	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		testing uptrend	cobalt
Cyprium Metals	CYM		new low	copper
Dateline	DTR		down	rare earths
De Grey	DEG		good recovery	gold
E2 Metals	E2M		breached new uptrend	gold exploration
Ecograf	EGR		falling again	graphite
Element 25	E25		new uptrend commenced	manganese
Emerald Resources	EMR		trying to recapture uptrend	gold
Empire Energy	EEG		down	gas
Euro Manganese	EMN		breached new uptrend	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		new low	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		down	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		rising	rare earths
Kingfisher Mining	KFM		down	rare earths
Kingwest Resources	KWR		new low	gold
Legend Mining	LEG		new low	nickel exploration
Lepidico	LPD		back to lows	lithium
Lindian Resources	LIN		correcting lower	bauxite

Lion One Metals	LLO		down	gold
Los Cerros	LCL		new low	gold exploration
Lotus Resources	LOT		sideways through downtrend	uranium
Lucapa Diamond	LOM		new uptrend forming, but struggling	diamonds
Lunnon Metals	LM8		down	nickel
Lynas Corp.	LYC		down	rare earths
Magnetic Resources	MAU		surge on REO news, then retracement	gold exploration
Mako Gold	MKG		failed at resistance line	gold exploration
Marmota	MEU		sideways	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		down	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		down again	gold exploration
Orecorp	ORR		at lows	gold development
Oz Minerals	OZL		new high on BHP takeover moves	copper
Pacific Gold	PGO		down	gold exploration
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		down	gold
Renergen	RLT		down	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		down	gold

Sandfire Resources	SFR		heavy fall	copper
Santos	STO		breached trend line support	oil/gas
Sarama Resources	SRR		down	gold exploration
Silex Systems	SLX		peaked, then sharp fall	uranium enrichment technology
Silver Mines	SVL		down	silver
South Harz Potash	SHP		still in downtrend	potash
Southern Cross Gold	SXG		down	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
Tamboran Resources	TBN		breached downtrend	gas
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
Venture Minerals	VMS		down	tin, tungsten
West African Resources	WAF		down	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		**sideways**	zinc
Totals	14%	20	Uptrend	
	56%	82	Downtrend	
		146	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	21.9%	
Gold Exploration	22	15.1%	
Rare Earths	12	8.2%	
Nickel	11	7.5%	
Copper	9	6.2%	
Oil/Gas	9	6.2%	
Iron Ore/Manganese	6	4.1%	
Zinc/Lead	5	3.4%	
Lithium	4	2.7%	
Uranium	4	2.7%	
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	2	1.4%	
Diamonds	1	0.7%	
Other	10		
Total	146		

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