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The Mining Investment Experts

Weekly Commentary

17 June 2023 | *Chart comments at Friday's close* | Analyst : Warwick Grigor

High profit margins versus high volumes

The good performance of a number of mining and energy stocks on Friday was notable with the evidence of some bottom fishing. The June selling campaign often tends to become less aggressive in the second half of the month, and we see that this might be happening again. Watch the first few days of next week to see if the buyers are still around.

With June being the typical boring month, even more so this year as it comes after (or during) the interest rate induced bear market. Perhaps it is time to be forward looking and think about how we can do it smarter in the next cycle. How can we become sharper and get on board with the next generation of stock market performers? In asking this question we should consider whether there is more money to be made by stock market traders in smaller, profit margin focused projects rather than in projects of a huge scale.

Big or small, which is better?

There are two extremes in the scale of the mining exploration and development projects that we are shown, particularly when it comes to gold and copper. At one end we see smaller, high grade projects that are suitable for junior companies with more modest market capitalisations. At the other end we see projects such as porphyries that could be 1-2 billion tonnes, that are definitely not suitable for junior companies. A smaller project may typically require around $50m in capex to get up and running, for something less than 50,000 oz p.a. production. The larger low-grade projects could require billions of dollars.

There are many examples of fabulously large projects that definitely fall into the "world class" category but they seem to take decades to get into production for a multitude of reasons. Capex requirements of $1-3bn are an obstacle for any size company, but it takes more than money to get these projects going. It takes courage and entrepreneurism, two characteristics that are often scarce in the very bureaucratic major companies that usually end up with these projects.

I roll my eyes when junior companies knock on my door to tell me about their great porphyry targets. My first response is usually something like "*how fast do you want to go broke?*"

Some examples in South America

A good example of a huge copper porphyry is the Los Callatos copper project in Peru. Metminco came to Canaccord in about 2009, when the company was capitalised at less than $50m. In the subsequent months and years after that, Los Callatos size grew to over 2 billion tonnes. There were eight drilling rigs operating and over 120,000m of drilling was completed. Metminco grew to over $500m in size with many institutions on the register. However, the more drilling success the project achieved, the more complex the story became. It became too big, and too difficult for a junior company. Eventually Metminco had to divest itself of the project.

A more recent example of a junior company achieving exploration success with these large orebodies is Los Cerros (LCL) in Colombia. The JORC resource announced last year was up to 2.6 Moz of gold, with potential for 5-10 Moz, but the Company has gone quiet on the project for the time being, preferring to focus on higher grade mineralisation in PNG.

Yet another is Challenger Gold with an Inferred Resource of 268 Mt at 0.38 gpt gold with copper and silver and molybdenum credits lifting the gold equivalent grade to 0.52 gpt, for a total of 4.5 Moz. This is a great achievement so why is the share price 65% lower than it was in early 2021? Similarly, why is Los Cerros's share price about a quarter of what it was at its peak in 2021. Much of the blame can be attributed to the bear market that has brought everything lower over the last 12 months, but is there a bigger lesson to be learnt other than just picking the peak of the stock market cycle?

Bringing in major companies - a double edged sword

There is nothing wrong with a junior picking up ground that is prospective for porphyries, but they must be disciplined regarding how much they are prepared to spend to add to the story, and they need to be looking for joint ventures with major companies who can do the heavy lifting once the prospectivity of the ground has been confirmed. What they should not be doing is funding it alone.

Getting a major involved is necessary for longer term survival, and to reduce dilution by repeated share issues, but there is a tradeoff. Progress often slows down due to the sloth-like speed with which they act. Information flow becomes constrained in the same process, and this is no help for shareholders in the junior companies that need to be constantly fed.

Introducing new parties to a project always complicates the politics of project development. The junior partner may be free carried, but it will usually be freely ignored in the process as well. Major companies usually have more than one pre-development project in their portfolios and internal politics will be another problem. Have a look at SolGold's experience with Cascabel, in joint venture with BHP. That US$2.7bn mine (pre-production capex) is planning to produce 190,000 tpa of copper and 680,000 oz of gold, plus silver, in the first five years of a 26 year mine life. That has been a long, drawn-out process.

Project development timelines differ dramatically

Every year the world of permitting and compliance for the development of mines becomes more difficult. Sometimes this is because of stricter environmental standards but there is a deeper, more insidious trend within our society generally, pushing us down the path of more rules and regulations.

The larger a project, the more people get involved in the permitting, regulatory and design aspects. More and more people see a chance to feed off the work that it generates and there is no incentive to fast track anything. There is not the same dynamics with smaller projects and in any event, too many hanger-oners would place their development in jeopardy.

Open pits versus underground developments

It has been said to me that the latest president in Colombia is left leaning and not in favour of mining, but a closer look will show that this is too simplistic a view. Most of the major companies have a presence in that county owing to its vast mineral wealth. There are many mines in production, and many more planned.

Large open pits mines receive more scrutiny in the permitting stage owing to the large environmental footprint that is involved and the often complex social issues. Consider a 300m deep pit that would be needed for a porphyry-style mine for example. The surface area involved becomes considerable when you take into account the pit dimensions, the large treatment plant and the tailing dams required. In the more mountainous regions of the country, where there is good geology, tailings disposal becomes a real issue and a threat to river systems. The permitting process can become a highly political hot potato and there is no guarantee of achieving success. So yes, a left wing President might be happy to slow the process down, but that shouldn't be interpreted as being anti-mining.

In constrast, underground mines are generally easier to permit in the same regions owing to the much smaller surface footprint. They don't rely on economies of scale to be economic, but they focus on selectively mining high grades to achieve financial success. The Government and local communities are more familiar with smaller, high grade mines and therefore the social issues are more manageable. Tailings disposal involves much smaller volumes of material with better flexibility in design. Similarly, waste and overburden stockpiles are not the major feature that they are with open pits.

So again, we see reasons why junior companies need to consider what size projects they get involved with in order to have a chance for shareholders to benefit both in the short and long term.

New stories will be the best performers

Analysis of numbers is supposed to be an important tool in getting stock selection right. Perhaps that is an angle for using A1 as a sorting mechanism, even though a crystal ball might be better.

Recognising that playing the stock market, particularly in the mining sector, has many of the hallmarks of sophisticated gambling, we need to consider the emotive aspects of investing - those that make feel good, or bad about a particular company and its story. A new story is often refreshing as it is a chance to apply one's experiences to a new fact situation. We can dismiss some stocks in our portfolio that we have grown tired of, for a multiple of reasons. We can be optimistic about new stories, particularly if they are being well promoted.

One method I frequently employ is to identify companies that most people don't know about and are yet to be exposed to the promotion. Combine this with an expanding information curve and you have two essential ingredients at the start of a share price life cycle. As more people become aware of it, and positive news flow is added to the mix, a share price will invariably rise. An absence of stale bulls - those shareholders who bought the story earlier, and have since seen the share price fall, for whatever reason - is another requirement. You don't want to be buying into companies where positive news flow just gives stale bulls the opportunity to sell. That is hard work.

Some might think that once this very heavy market correction is over, there will be a point where the share can be bought again based on the fundamentals. They would be correct, but there is no point in rushing into it without having done the homework.

Kaiser Reef - lifting its production profile

A year ago, when doing the June 2022 Gold and Grape Tour of Victoria, we went down the high A1 Gold mine in eastern Victoria. At the time I was reasonably impressed with what I saw, but I wanted to see some more progress before mentioning it in a Weekly. Last week's positive ASX release is worthy of comment.

Some history first

I first went down the A1 Mine in the early 1980s, when the workings were accessed by a small shaft rather than a decline. Back then it was a promoters dream with a showcase "ball room" that had visible gold glittering in the walls and ceiling. The trouble was that promoters rules governed the day and the mine never had enough working capital to be adequately funded. It was always a struggle to achieve credibility. The mine has since passed through a number of hands before finally ending up with Kaiser Reef, in 2020.

Major improvements completed

Last week Kaiser Reef reported the completion of de-bottlenecking and infrastructure improvements that will enable the doubling of capacity to achieve 4-5,000 tonnes per month. There has been a significant upgrade of the high voltage power supply and an expansion of the underground remote mining fleet. Mine ventilation is progressively being improved.

The ore is trucked from the mine to the Maldon treatment plant, which has been significantly upgraded to achieve a treatment capacity of 200,000 tpa of hard rock ore. Throughput per shift has increased by 20% and the grinding circuit can now reduce the feed from 125 μm to 75 μm, enabling a 1.5-2% increase in gold recovery.

Recent drill results confirm high grades

A couple of weeks ago there was another ASX release that detailed drill intercepts that included 1.7m at 34.4 gpt, 4.4m at 118 gpt and 1.75m at 53.8 gpt gold. This program targeted the extension beyond the historic workings of the Welcome Reef and the Victory Reefs between 15 and 16 Levels, south of the existing 1410 South mining development. Thus it points to new mining areas.

Improvements set to continue

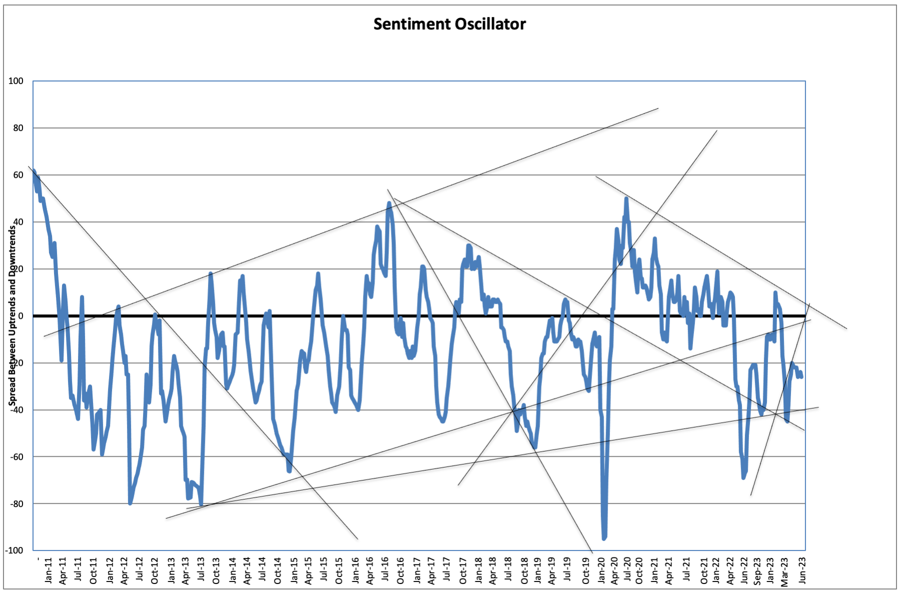
Getting the A1 working again hasn't been an easy task and having enough working capital to improve and expand the operations has been challenging, but we are starting to see tangible benefits from the program. It looks like the mine has turned the corner and is on the way to being a profitable high grade gold mine for the first time in many years.

The inferred mineral resource near to the Maldon treatment plant is a useful 186,656 oz at 4.4 gpt, with there being potential to increase this above 300,000 oz. The improved milling facility could enable a faster route for gold production from this source, in addition to the A1 Mine.

The Bottom Line

The market capitalisation of Kaiser Reef is only $31m, so it is still a tiddler. You can expect this will increase progressively, as gold production increases. The operational and funding risks will moderate along with the better performance of the mine. There is good leverage to a commencement of mining from the second location, at Union Hill. The Company has done well so far, with the promise of continuing improvement.

We have deleted Mithral Resources from chart coverage.



Sentiment Oscillator: Sentiment was a little softer last week. There were 24% (25%) of the charts in uptrend, and 50% (49%) 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. 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	attempting positive breakout	
Metals and Mining	XMM	breakout, approaching resistance line	
Energy	XEJ	edging higher	
Information Technology	XIJ	strongly higher	
Stocks	**Code**	**Trend Comment (updated comments in bold)**	**Main Interest**
5EA Advanced Materials	5EA	down	boron
92 Energy	92E	testing downtrend	uranium
A-Cap Energy	ACB	new low	uranium
Alpha HPA	A4N	new high	HPA
Adriatic Resources	ADT	new high	zinc, polymetallic
Advance Metals (was Pacific American)	AVM	back to lows	coal, gold exploration
Alkane Resources	ALK	off its high	gold

Alicanto Minerals	AQI	sideways at lows	base metals, silver, gold
Almonty Industries	AII	sideways	tungsten
Altech Chemical	ATC	failing at resistance line	HPA, anodes
Anteotech	ADO	breached downtrend	silicon anodes, biotech
Alto Metals	AME	new low	gold exploration
American Rare Earths	ARR	breached support line	rare earths
Antilles Gold	AAU	rising	gold
Anax Metals	ANX	sideways below 8c	copper
Arafura Resources	ARU	down	rare earths
Ardea Resources	ARL	new low	nickel
Aurelia Metals	AMI	back to lows	gold + base metals
Australian Rare Earths	AR3	heavy correction on placement	rare earths
Arizona Lithium	AZL	new low	lithium
Azure Minerals	AZS	another surge higher	nickel exploration
BHP	BHP	down	diversified, iron ore
Barton Gold	BGD	resuming uptrend	gold exploration
Beach Energy	BPT	testing resistance line	oil and gas
Bellevue Gold	BGL	off its highs	gold exploration
Benz Mining	BNZ	down again	gold
Black Cat Syndicate	BC8	recapturing uptrend	gold
BMG Resources	BMG	down	gold exploration
Boab Metals	BML	at resistance line	silver/lead
Buru Energy	BRU	sideways	oil
Calidus Resources	CAI	new low	gold
Caravel Minerals	CVV	slump	copper
Carnaby Resources	CNB	testing support line	copper
Castile Resources	CST	still in downtrend	gold/copper/cobalt
Celsius Resources	CLA	rising on takeover bid	copper
Cobalt Blue	COB	down	cobalt
Cyprium Metals	CYM	suspended	copper
Dateline	DTR	steep rise	rare earths
Ecograf	EGR	new low	graphite
Emerald Resources	EMR	rising, new high	gold
Empire Energy	EEG	new low	gas
EQ Resources	EQR	rising	tungsten
Euro Manganese	EMN	down	manganese
Evolution Energy	EV1	softer	graphite
Evolution Mining	EVN	rising	gold
First Graphene	FGR	down	graphene
Fortescue Metals	FMG	testing downtrend	iron ore
FYI Resources	FYI	recovered to meet resistance line	HPA
Galena Mining	G1A	breached uptrend	lead
Genesis Minerals	GMD	down	gold
Genmin	GEN	down	iron ore

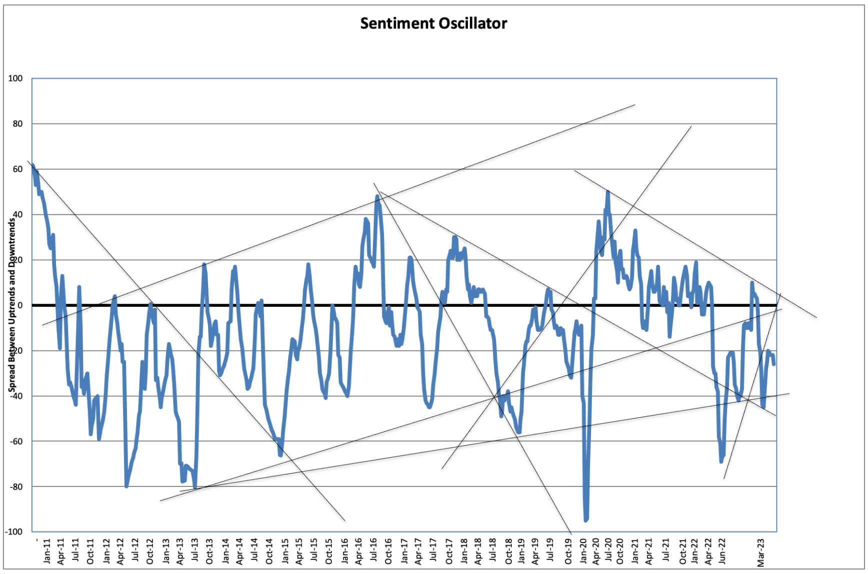
Gold Road	GOR		back to support line	gold
Great Boulder Resources	GBR		sideways	gold exploration
Group 6 Metals	G6M		down	tungsten
Hamelin Gold	HMG		uptrend	gold exploration
Hastings Technology Metals	HAS		further collapse	rare earths
Hazer Group	HZR		rising again	hydrogen
Heavy Minerals	HVY		slump back to trend line	garnet
Highfield Resources	HFR		down	potash
Hillgrove Resources	HGO		slump	copper
Iluka Resources	ILU		still at highs	mineral sands
ioneer (was Global Geoscience)	INR		testing downtrend	lithium
Ionic Rare Earths	IXR		down	rare earths
Jervois Mining	JVR		breached new uptrend	nickel/cobalt
Jindalee Resources	JRL		at lows	lithium
Kaiser Reef	KAU		sideways through downtrend	gold
Kalina Power	KPO		sideways at lows	power station additive
Krakatoa Resources	KTA		new low	rare earths
Kingfisher Mining	KFM		off its lows	rare earths
Lepidico	LPD		down	lithium
Lindian Resources	LIN		rising again	rare earths + bauxite
Lion One Metals	LLO		slump	gold
Li-S Energy	LIS		breached downtrend	Lithium sulphur battery technology
Los Cerros	LCL		new uptrend	gold exploration
Lotus Resources	LOT		down	uranium
Lucapa Diamond	LOM		down again	diamonds
Lunnon Metals	LM8		resumed uptrend	nickel
Lynas Corp.	LYC		spike out of downtrend	rare earths
Magnetic Resources	MAU		new low	gold exploration
Mako Gold	MKG		sideways	gold exploration
Marmota	MEU		drifting lower	gold exploration
Matador Mining	MZZ		down	gold exploration
Mayur Resources	MRL		rising	renewables, cement
Meeka Gold	MEK		at lows	gold
Megado Gold	MEG		at lows	rare earths, gold exploration
MetalsX	MLX		down	tin, nickel
Meteoric Resources	MEI		rising again	rare earths
Metro Mining	MMI		still down	bauxite
Musgrave Minerals	MGV		testing downtrend	gold exploration
Nagambie Resources	NAG		down	gold, antimony
Neometals	NMT		breached downtrend	lithium
Newfield Resources	NWF		down	diamonds
Northern Star Res.	NST		new high	gold
Nova Minerals	NVA		collapse on -.3 gpt grade, 9.9 Moz	gold exploration
Orecorp	ORR		down	gold development

Pacific Gold	PGO		slump back to lows	gold exploration
Pantoro	PNR		new low	gold
Panoramic Res	PAN		down	nickel
Parabellum Resources	PBL		down	rare earths
Patriot Battery Metals	PMT		rising again	lithium
Peak Resources	PEK		on trend line	rare earths
Peninsula Energy	PEN		sideways through downtrend	uranium
Perseus Mining	PRU		off its highs	gold
Poseidon Nickel	POS		sideways	nickel
Provaris Energy	PV1		down	hydrogen
QMines	QML		new low	copper
Queensland Pacific Metals	QPM		long term down	nickel/cobalt/HPA
RareX	REE		breached uptrend	rare earths, phosphate
Regis Resources	RRL		rising again	gold
Renergen	RLT		breaching steepest downtrend	gas, helium
Resource Mining Corp.	RMI		strong rally	nickel exploration
Richmond Vanadium	RVT		recovering	vanadium
RIO	RIO		strong recovery	diversified, iron ore
Rumble Resources	RTR		secondary downtrend	gold exploration
S2 Resources	S2R		sideways	gold exploration
Sandfire Resources	SFR		breached uptrend	copper
Santos	STO		softer	oil/gas
Sarama Resources	SRR		sideways through downtrend line	gold exploration
Sarytogan Graphite	SGA		down	graphite
Siren Gold	SNG		sideways through downtrend line	gold exploration
South Harz Potash	SHP		down again	potash
Southern Cross Gold	SXG		down	gold exploration
Southern Palladium	SPD		down	PGMs
Stanmore Coal	SMR		surge higher	coal
Strandline Resources	STA		down	mineral sands
Sunstone Metals	STM		sideways	gold/copper exploration
Suvo Strategic Minerals	SUV		new low	kaolin
Talga Resources	TLG		down	graphite
Tamboran Resources	TBN		breached downtrend	gas
Technology Metals	TMT		down	vanadium
Theta Gold Mines	TGM		rising	gold
Thor Mining	THR		down	gold exploration
Tietto Minerals	TIE		breached downtrend	gold
Vanadium Resources	VR8		new low	vanadium
Venture Minerals	VMS		down	tin, tungsten
Vintage Energy	VIN		down	gas
Voltaic Strategic Resources	VSR		steep rise	REO + lithium
West African Resources	WAF		breaching downtrend	gold
West Cobar	WC1		down	rare earth + lithium

Westgold Resources	WGX		off its highs	gold
West Wits Mining	WWI		at lows	gold
Whitehaven Coal	WHC		bouncing off lows	coal
Xantippe Resources	XTC		sideways	lithium
Zenith Minerals	ZNC		down	gold exploration
Totals	24%	34	Uptrend	
	50%	71	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 Exploration	**22**	**15.4%**	
Gold	**21**	**14.7%**	
Rare Earths	**15**	**10.5%**	
Oil/Gas	**9**	**6.3%**	

Nickel	8	5.6%	
Copper	9	6.3%	
Lithium	9	6.3%	
Iron Ore/Manganese	5	3.5%	
Graphite/graphene	5	3.5%	
Uranium	5	3.5%	
Silver	4	40.0%	
Tungsten	3	2.1%	
Mineral Sands	2	1.4%	
Vanadium	3	30.0%	
Zinc/Lead	2	1.4%	
Coal	2	1.4%	
Potash/Phosphate	2	1.4%	
Bauxite	2	1.4%	
Tin	2	1.4%	
Cobalt	1	0.7%	
Diamonds	2	1.4%	
Other	10		
Total	143		

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