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FAR EAST CAPITAL

The Mining Investment Experts

Weekly Commentary

24 August 2024 *Chart comments updated on Friday's close* Analyst : Warwick Grigor

Antimony sector was the standout last week

The markets continued to improved last week, closing on a high in New York. The gold price hit another new high. The standout performer was Larvotto Resources (LRV), the gold/antimony play at Hillgrove in New England NSW, that we have been mentioning. Its share price went vertical, closing at 40¢. Only a couple of weeks ago it was trading below 15¢. The enthusiasm spilled over to other antimony hopefuls such as Nagambie (NAG), Siren Gold (SNG) and Southern Cross Gold (SXG) . Nagambie rarely trades more than $10,000 a day, but more than $1m worth traded over the space of last week; plenty of buyers and sellers.

Much of the renewed interest in antimony came from the news last week that China announced that export controls on antimony would take effect on 15 September. It is uncertain what this means exactly. There will be restrictions on exports yes, but we are not sure whether this actually means a complete ban on exports.

What will it take to turn around the junior end?

The bear market in the junior end started when interest rates were ratcheted up in response to the inflation coming through the economy. For a while we thought that the market would turn around once rates stopped moving higher in a cause and effect analysis. However, that thinking is no longer relevant. All other markets are performing credibly, but not the junior end. Why? There are structural issues at this end of the market that need to be addressed.

Money was flowing like there was no tomorrow in the bull market that preceded the bear. There was a frenzy of dozens, and maybe even hundreds of IPOs that hit the market with projects with little or no merit. It was a sausage factory of formula driven structures that were never going to succeed in the long term because their projects were mostly crap.

The hype around battery input materials about which there was little understanding morphed into rare earth and critical minerals without much science. Industrial mineral projects started to perform like highly speculative gold exploration stocks. Everything went to excess, from the narrative to capital raisings to executive remuneration. I don't think I will live to see such a boom again.

The role of brokers

Once upon a time brokers actually "broked" the market. Dealers picked up the phone and advised clients what to buy and sell. They had an important influence on share price movements, but that is history now.

Today, the low cost internet broking business has cut broking rates to such low levels that the margins for old style broking no longer exists. The increasing compliance rules and costs have contributed to the crushing of the historical broking businesses. At the same time the value of analysts has evaporated They are victims of invasive compliance and restrictions on what and how they receive, convey and disseminate information. The ill-informed chat sites have taken over with the result being that the blind are leading the blind, outside of the reach of the regulators. It is a free for all to spread rumours and misinformation without accountability.

The turnaround needs a self adjusting system

On the one hand the stock market is extremely efficient with news and narrative being disseminated very quickly via the internet. On the other hand it is very inefficient when it comes to communicating the real story and distilling the truth. That is why it behaves like a casino that favours quick traders ahead of thoughtful investors.

The regulators are still struggling to come to grips with this dichotomy, which undermines the theoretical role of the equity markets in directing capital to projects of merit that lead to shareholder returns. As much as the ASX tries to protect shareholders, it simply doesn't work at the smaller end. That leads us toask what is needed to turn the market around. The answer is not simple, but consider these points:

1. There are too many small companies on the ASX
   - There are too many companies for any one person to keep tabs on. That spilts the potential buying among too many companies. There are not enough differences between many of these and not enough reliable information on which to assess them.
2. Too many companies have crappy projects
   - There is an excess of projects that will never amount to anything. They don't even pass the sniff test. There is no quality control. Yet each company is obliged to say that they have great projects, better than rest. Do they lie? Maybe, but certainly many of them are delusional because they have to play the cards in their hand.
3. The narratives are too promotional with short term share price objectives the main game.
   - Shareholders judge their portfolios by the performance of share prices. They all want the share price to rise and they all pressure directors to get the share price moving. Short termism is the order of the day but great companies take years to build.
4. The vast array of IR and promotional organisations are fee driven without sufficient concern for investors.
   - There is a vast array of investor relation companies that charge companies to have their stories put before investors and traders. Sometimes they are just spin doctors. Sometimes they are event organisers and seek to get an audience before the company. Sometimes they

spew emotive verbalism on the internet with excessive advertising and highly biased opinions. There is little attention to quality control or vetting the stories before showing the companies. They are paid by the companies, not the investors, so you can imagine where their loyalties lie.

5. Directors and executives are being paid too much.
    - Directors and executives will put their hand up for increased payments when times are good, but they need to slash these payments when times are bad. We should be looking at reductions in remuneration of at least 50% in these times. That needs to happen now or the companies will quickly run out of money.
    - I saw an exploration company last week with a cash balance of $4.5m that appointed a new Managing Director with a starting salary of $350,000 p.a. That has got to be seen as excessive in this environment given that most of the companies have no chance of generating cash flow from operations. It is time to stop the wealth transfers, from shareholders to directors and executives. Shareholders have all lost substantial sums of money. It is time for companies to slash remuneration for their directors and employees or they won't be around for the next cycle.
6. Administration, compliance and overheads are too high.
    - It would be difficult for a company to get away with overhead costs of less than $1m p.a. today. There is an ever increasing reliance on lawyers when dealing with regulatory issues - because they are becoming ever more complicated. Accounting is also more complicated and so often self serving, more concerned with racking up hourly fees than a commercial outcome. Administration and overheads need to be cut because they are sucking the life blood out of companies.
7. There is insufficient accountability of directors to shareholder welfare.
    - Directors need to better consider the shareholders - all of the shareholders - when making decisions. They need to think more carefully about what is best for them, not just pragmatically in the short term, but also in the strategic direction of the company. There needs to be not just good management, but better leadership.
8. Brokers are only incentivised to conduct wealth transfers from investor to companies
    - The most successful brokers today are those that raise capital, charging fees of 5-7%, with broker options. Companies are increasingly desperate to raise the money, so the brokers are successfully negotiating big discounts to the closing share price. However, there is no incentive for brokers to provide after market support. There is no money in it. They effectively manage wealth transfers from investors to companies with little concern to what happens thereafter. The trouble is, when share prices keep falling, the pool of investors who will participate in raisings is shrinking.

Markets will eventually be self sorting as they struggle to maintain relevance. Many companies will disappear and hopefully that means that those that survive will be match fit and good candidates in the recovery. Put simply, the rubbish has to be gotten rid of before we can expect a new bull market to emerge.

Time for a high risk venture market

Perhaps it is time to consider a second board for junior mining companies. Rather than raising compliance hurdles it would be more efficient to group the bottom end of the market, acknowledge that they are high risk, and come up with a set of rules more appropriate to a casino-type environment. It should be case of caveat emptor. Leave the compliance nightmare to more respectable companies with lower risk profiles.

Andromeda (ADN) raising at 1.25¢ + options

Every day I get emails offering me shares in placements but I mostly ignore them. I have given up passing them on to my investing clients because I don't want to disturb them by showing them deals that I wouldn't consider with my own money. There is no appetite.

On Friday 16th August, Andromeda Metals Ltd launched a placement to raise $3m at 1.25¢ a share, with a 1 for 1 option, at a 22% discount to the last traded price. There is also an entitlement offer of $3m. Was that a good deal?

Back in the heady days of the bull market the ADN share price ran from 0.6¢ to peak at 32.5¢ in January 2021. That gave it a market capitalisation of around $600m. Today, with the price at 3.1¢, that capitalisation figure is down to less than $50m.

Andromeda has projects of merit. The company has released reports stating that the Stage 1A EBITDA will be $35m p.a., through to LOM average of $140m p.a. Why is there such a disconnect between the market capitalisation and the project spreadsheet? Is the market telling us that it doesn't believe in the project, or that is just doesn't care? Is this another example of the inefficiency of the equities market in the role of allocator of risk capital for project development? It is probably a case of all three.

The first point to make is that kaolin is an industrial mineral and industrial minerals projects are seldom sexy. Over the last few years we have seen extraordinary share price performances of a number of companies promoting industrial minerals projects. This was the first time in my 50 year career in the stock market that I have seen this happen. Here, ADN has seen a 97% fall in its share price.

Another example is 5EA Advanced Materials (5EA), previously American Boron. Its share price fell from $3.58 to 13.5¢, an incredible drop of 96%. A client asked me to explain why. Was it in trouble? Sure, it was having a few issues, but the main point was that the share price should never have been pushed that high in the first place. Boron is an industrial mineral. It stood out as an old fashioned ramp that sucked in many naive investors.

Prior to this recent bubble it was very difficult to get investors interested in industrial minerals. They were boring, even when the numbers look great. Most companies that tackled these developments went broke. They were likened to developing a hotel; the developer usually goes broke and the next owner is the first to make profits.

The most important thing with industrial minerals is the ability to sell the product. Size of the resource, and even the quality to some extent, is subservient to the ability to sell. That means entering an often specialised market where buyers already have the supply chains organised. Changing suppliers will need a big price difference for buyers to risk using a new product. Quality is also important, but there can be a trade-off between price and quality. Most of these market have modest growth profiles so the selling price price is reflective of the demand and supply on a continual basis.

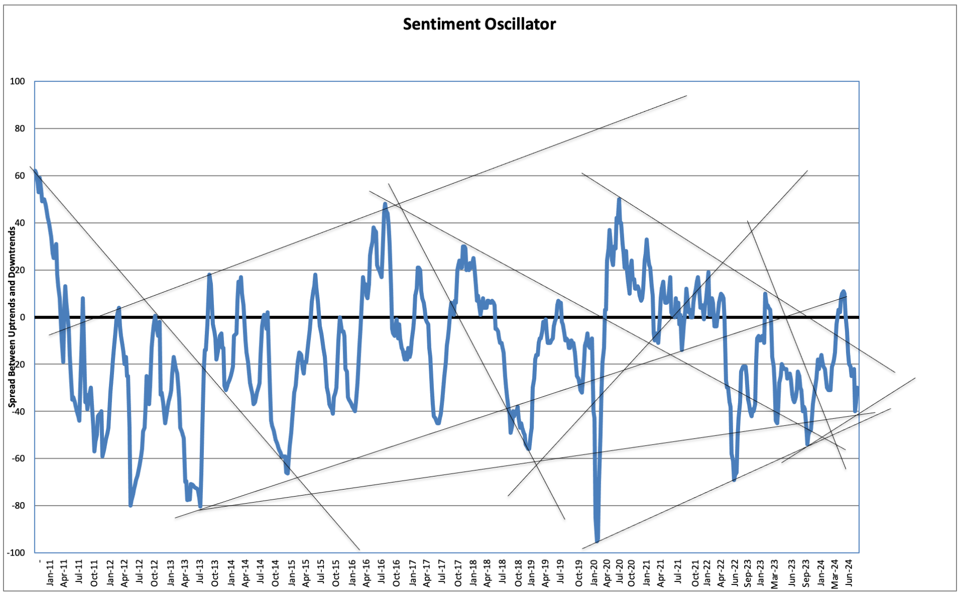
Kaolin is a clay. There are many clay deposits around the world, and many waiting to be found. It is a competitive market and not easy to enter. Every company will tell you that its clay is special, but you need to look deeper. Is it really unique? Again, can you sell it? Australia's only independent kaolin producer, Suvo Strategic (SUV), hasn't yet found enough buyers to be able to operate at much more than 50% of capacity.

So, back to Andromeda and the merits of the placement. This money is really survival money. The Company will still have a long road ahead of it on project funding and development. The big discount to the last selling price, with the 1 for 1 options, guaranteed that the market price would drop to, or below, the issue price. Market dynamics rather than fundamental merit are what you should be focusing on if you are a trader.

Postscript: I actually wrote this piece a week ago but thought I should be diplomatic and hold off publishing until after the placement had closed. As it turned out, the Trading Halt was extended into a suspension, which happens if the placement can't be closed within the narrow two day time frame afforded with a trading halt. Nevertheless, ADR managed to raise $3.4m, slightly more than the target.

When the shares began trading again they predictably fell from the pre-announcement price of 1.6¢, to 0.9¢ i.e. a whopping fall of 44%, and a discount of 28% on the placement price. That is exactly what I have been warning about when companies do heavily discounted placements and throw in options. They butcher the share price.

Disclosure: Nil.



Sentiment Oscillator: Sentiment improved a little. There were 24% (21%) of stocks in uptrend and 54% (57%) in downtrend at the close of the week

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		strong rally	
Metals and Mining	XMM		rallying	
Energy	XEJ		still under long term downtrend line	
Information Technology	XIJ		off its highs	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
5EA Advanced Materials	5EA		new low	boron
Advance Metals	AVM		new low	coal, gold exploration
Aguia Resources	AGR		recovering uptrend	phosphate, gold
Alkane Resources	ALK		new low	gold
Alicanto Minerals	AQI		new low	base metals, silver, gold
Alligator Energy	AGE		new low	uranium
Almonty Industries	AII		rising	tungsten
Alpha HPA	A4N		testing longer term uptrend	HPA
Altech Chemical	ATC		back in downtrend	HPA, anodes
Alto Metals	AME		surge higher on merger proposal	gold
American Rare Earths	ARR		consolidating	rare earths
Anax Metals	ANX		new low	copper
Andean Silver	ASL		rising again	silver
Anteotech	ADO		sideways at lows	silicon anodes, biotech
Arafura Resources	ARU		pullback	rare earths
Ardea Resources	ARL		down	nickel
Arizona Lithium	AZL		strong rally	lithium
Astral Resources	AAR		new uptrend breached	gold
Averina	AEV		rising	phosphate
Aurora Energy Metals	1AE		new low	uranium
Aurelia Metals	AMI		back to support line	copper + base metals
Australian Gold and Copper	AGC		good rebound	base metals, silver, gold
Australian Rare Earths	AR3		new low	rare earths
Australian Strategic Materials	ASM		new low	rare earths
BHP	BHP		new low	diversified, iron ore
Barton Gold	BGD		new low	gold exploration
Beach Energy	BPT		new low	oil and gas
Bellevue Gold	BGL		breached uptrend	gold
Besra Gold	BEZ		testing downtrend	gold
Black Cat Syndicate	BC8		pullback	gold
Boab Metals	BML		new low	silver/lead
Brazil Critical Minerals	BCM		new low	rare earths
Brazilian Rare Earths	BRE		new low	rare earths
Brightstar Resources	BTR		uptrend	gold

Caravel Minerals	CVV	correcting lower	copper
Carnaby Resources	CNB	down	copper
Castile Resources	CST	down	gold/copper/cobalt
Catalyst Metals	CYL	surge to new high	gold
Cazaly Resources	CAZ	breached new downtrend	rare earths
Celsius Resources	CLA	sideways	copper
Cobalt Blue	COB	new low	cobalt
Cyprium Metals	CYM	breached uptrend	copper
Emerald Resources	EMR	rising, new high	gold
Empire Energy	EEG	new high	gas
EQ Resources	EQR	breaching downtrend	tungsten
Evolution Energy	EV1	collapse to a new low	graphite
Evolution Mining	EVN	rising	gold
First Graphene	FGR	down	graphene
Fortescue Metals	FMG	new low	iron ore
Genesis Minerals	GMD	rising	gold
Globe Metals and Mining	GBE	down	niobium
Gold 50	G50	testing downtrend	gold exploration + gallium
Great Boulder Resources	GBR	new low	gold exploration
Group 6 Metals	G6M	fallen out of new uptrend	tungsten
Hamelin Gold	HMG	stronger	gold exploration
Hastings Technology Metals	HAS	surge on placement to Chinese	rare earths
Heavy Minerals	HVY	steeply higher	garnet
Hillgrove Resources	HGO	new low	copper
Iluka Resources	ILU	new low	mineral sands
ioneer (was Global Geoscience)	INR	new low	lithium
Ionic Rare Earths	IXR	new low	rare earths
Jervois Mining	JVR	back to lows	nickel/cobalt
Jindalee Lithium	JLL	new low	lithium
Jupiter Mines	JSM	new low	manganese
Kaiser Reef	KAU	improving	gold
Krakatoa Resources	KTA	back to lows	rare earths
Larvotto Resources	LRV	steep rise	gold, antimony
Lindian Resources	LIN	new low	rare earths + bauxite
Li-S Energy	LIS	sideways	Lithium sulphur battery technology
LCL Resources	LCL	new low	gold/nickel exploration
Lotus Resources	LOT	new low	uranium
Lucapa Diamond	LOM	new low	diamonds
Lunnon Metals	LM8	down	nickel
Lynas Corp.	LYC	rallied to meet resistance	rare earths
Marmota	MEU	gently lower	gold/uranium exploration
Mayur Resources	MRL	breached uptrend	renewables, cement
Meeka Gold	MEK	at lows	gold
MetalsX	MLX	rising	tin, nickel

Meteoric Resources	MEI		new low	rare earths
Metro Mining	MMI		breached uptrend	bauxite
Midas Minerals	MM1		testing downtrend	lithium
Nagambie Resources	NAG		surge on antimony spotlight	gold, antimony
Neometals	NMT		new low	lithium
Newfield Resources	NWF		down again	diamonds
Nexgen Energy	NXG		breached uptrend	uranium
Northern Star Res.	NST		testing downtrend	gold
Nova Minerals	NVA		down	gold exploration
Novo Resources	NVO		down	gold exploration
Pacific Gold	PGO		breached downtrend	gold exploration
Paladin Energy	PDN		down heavily on takeover bid	uranium
Pantoro	PNR		rising again	gold
Patriot Battery Metals	PMT		collapse to a new low	lithium
Peninsula Energy	PEN		new low	uranium
Perseus Mining	PRU		correcting lower	gold
Provaris Energy	PV1		new low	hydrogen
QMines	QML		new low	copper
Queensland Pacific Metals	QPM		new low	nickel/cobalt/HPA
RareX	REE		new low	phosphate, rare earths
Regis Resources	RRL		down	gold
Renergen	RLT		surge on production news	gas, helium
Richmond Vanadium	RVT		bounced from lows	vanadium
RIO	RIO		breaching uptrend	diversified, iron ore
RTG Mining	RTG		breaching uptrend	copper
Rumble Resources	RTR		bounced from lows	zinc exploration
S2 Resources	S2R		sideways	gold exploration
Sandfire Resources	SFR		down	copper
Santos	STO		sideways	oil/gas
Sarytogan Graphite	SGA		new low on project update	graphite
Siren Gold	SNG		back to lows	gold exploration
South Harz Potash	SHP		new low	potash
Southern Cross Gold	SXG		surging on antimony	gold exploration
Southern Palladium	SPD		rising again	PGMs
Stanmore Coal	SMR		pullback	coal
St George Mining	SGQ		steeply higher	rare earths, niobium
Stellar Resources	SRZ		breaching downtrend	tin
Summit Resources	SUM		heavy correction	niobium, rare earths
Sun Silver	SS1		spike higher	silver
Suvo Strategic Minerals	SUV		sideways through uptrend	kaolin
Talga Resources	TLG		slump	graphite
Tamboran Resources	TBN		rising again	gas
Theta Gold Mines	TGM		rising again	gold
Thor Energy	THR		sideways at lows	uranium

Torque Metals	TOR		back to lows	gold exploration + lithium
Vanadium Resources	VR8		down	vanadium
Venture Minerals	VMS		down	tin, tungsten
Vintage Energy	VEN		new low	gas
Voltaic Strategic Resources	VSR		at lows	REO + lithium
Vertex Minerals	VTX		breached downtrend	gold
Walkabout Resources	WKT		sideways	graphite
Warriedar Resources	WA8		testing uptrend after placement	gold exploration
West Cobar	WC1		new low	rare earth + lithium
Westgold Resources	WGX		rising	gold
West Wits Mining	WWI		sideways	gold
Whitehaven Coal	WHC		testing uptrend	coal
Totals	24%	32	Uptrend	
	54%	74	Downtrend	
		136	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	**26**	**19.1%**	
Gold Exploration	**15**	**11.0%**	
Rare Earths	**14**	**10.3%**	
Copper	**10**	**7.4%**	
Uranium	**7**	**5.1%**	
Lithium	**6**	**4.4%**	
Oil/Gas	**6**	**4.4%**	
Nickel	**5**	**3.7%**	
Graphite/graphene	**5**	**3.7%**	
Iron Ore/Manganese	**4**	**2.9%**	

Potash/Phosphate	**4**	**2.9%**	
Coal	**3**	**2.2%**	
Tungsten	**3**	**2.2%**	
Tin	**3**	**2.2%**	
Silver	**4**	**40.0%**	
Diamonds	**2**	**1.5%**	
Niobium	**2**	**1.5%**	
Vanadium	**2**	**20.0%**	
Zinc/Lead	**2**	**1.5%**	
Mineral Sands	**1**	**0.7%**	
Bauxite	**1**	**0.7%**	
Cobalt	**1**	**0.7%**	
Other	**10**		
Total	**136**		

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