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On Friday's Close

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Anova Metals site visit - adding to the ounces

The second wave is starting

The market has been in a correction mode for about two months now, signalling the end of the first wave of the new bull market in mining stocks. Going through the charts the most common new entry is "rallying". Technically that means that these stocks are recovering from the lows of downtrends. It would be a fair bet to say these stocks won't go any lower but the normal scenario is for them to bounce around a bit to form some sort of a base. If they move ahead too fast the rises will be short term and unsustainable. So, you can expect a few weeks of improved sentiment with careful stock selection needed to make sure you get onto the stocks that will have sustainable rises. The easy market where everything rises was the first wave. That is over. It's time to get smart and think more carefully about what you are buying.

Anova Metals - background information

After the Guyana site visit, and the Beaver Creek Precious Metals Conference, I proceeded to Nevada, one of the most famous gold mining states in the USA. The purpose was to inspect Anova's Big Springs Gold Project, which it acquired in 2012. Back then it had a disclosed resource of one million ounces at 2.2 gpt, being the remnant resources after open pit mining by Freeport had removed about 350,000 oz in a period of sub \$400/oz gold prices.

At the time of the acquisition AWW was still called Kimberley Rare Earths, but it was looking for a new future following the collapse of the rare earths bubble. A gold acquisition at around \$10/oz for cash and paper seemed a good start. The Mitchell River Group became the main shareholder block, with management changing hands. Far East Capital raised small amounts of capital for the Company as it progressed along the path of recalculating resources to comply with JORC standards and as it conducted negotiations with the nearby Jerritt Canyon treatment plant and roaster. A lengthy permitting program was embarked upon with a view to mining the higher grade gold at 4-6 gpt.

Below is a quick summary of the project from a research note I published last February.

Location - 80 km N of Elko, Nevada USA

Infrastructure - Excellent in established mining region

Ore Type - Refractory, roasting required

Treatment Deal - Tolling arrangement with Jerritt Canyon

Throughput - 270,000 tpa, but can increase to 350,000 tpa

Head Grade - 5.9 gpt (average u/g)

Recovery Rate - 88%

Gold Production - 42,000 oz p.a.

Method - open pit 185,000 t at 4.5 gpt, 9:1 w/o, then u/g

Finance - from internal cash - recently raised \$9m at 13¢ NPV8% - 23¢ on six year life, US\$1,200/oz, A\$0.70

There have been some positive developments since this note was written. The gold price has been much stronger. There has been a \$9m capital raising that has placed the

Company in a sound financial position, and AWW has commenced an extensional drilling program.

Anova Metals - site visit observations

While an analyst can reasonably value a project from technical papers presented to him in his office, a site visit gives a much better perspective. Seeing is believing. You learn much more in 24 hours on site than a couple hours in the boardroom. I will give readers my first impressions below, with a more detailed note to come out later.

To begin with, from a couple of years ago, we mostly thought that Big Springs hosted a useful gold resource that was worth much more than the market was valuing it at. It was an asset with good upside which would become apparent once it was in production and generating strong cash flow. It was a low risk way to make a multiple on your money. However, perspectives change, sometimes for the better.

With the raising of the \$9m at 13¢ recently, AWW now has the capacity to be expansive. It doesn't have to limit itself to a commercialisation exercise whilst being capital constrained. It can go out and drill extensions of the orebodies and add economic ounces to its inventory.

When originally mined by Freeport, the gold price was much lower at < \$500/oz. Freeport mined open pit gold from a number of pits, taking the lowest cost ore possible and gold that was generally lower grade near surface, treating it in its own facility. However, there wasn't much incentive to push into the underground phase with the economics that it was labouring under at the time.

This is unlike many WA gold deposits that have undergone an extensive oxidation and lateral dispersion, which facilitated low cost, large tonnage open pit mines with low grade gold deposits. Once these pits were worked out the high grade feed zones were mostly narrow structures which were not compatible with the capital equipment, the scale and the skill bases of open pit miners. It was a different ball game.

Placing Big Springs in perspective, its orebodies are in mountainous geography with minimal oxidation. The orebodies are more discrete, higher grade and promise to extend considerable distances at depth. Importantly they are wide enough to sustain bulk underground mining as opposed to narrow high grade veins. There are at least 4-5 orebodies that show strong depth potential based on structural analysis and historical drilling. While the initial mine plan calls for a three year stage one, and possibly a second three year extension, there is no reason that the mines can't go on much longer once the drilling and planning has been undertaken.

The extensional drilling is relatively low risk. It is brownfields exploration designed to fill in the gaps and extend certainty as the orebodies go deeper. As such, with the availability of a treatment facility, new ounces can be

given a much higher valuation than those in a pre-development stand alone project.

We saw two diamond drill rigs operating on site. There will be seven or eight holes drilled from each drill pad. AWW plans to have 3,300m drilled by Christmas, by which time winter snow will force a shut down of the rigs until spring, when it will recommence.

AWV has budgeted for a \$5m drilling program with the belief that this could add another 250-500,000 oz to its resource base. Given that the all up costs for mining and treatment are estimated at US\$850/oz, there is potential to add an undiscounted value of US\$100-200m to AWW based on the cash generating ability, or more than twice the current share price.

Anova Metals - the bottom line

We know that the Jerritt Canyon roaster is operating at sub-optimal capacity. It needs more feed. AWW is ideally suited to supply that feed. It is our belief that once the mine is operating (which will be in Q4 2016) and resources are expanding, the numbers will dictate that the owners of Jerritt Canyon will want to take out AWW. Any deal would need to be much closer to 30¢ to be entertained by AWW shareholders. This is still a takeover play but the stakes are getting much larger.

An observation on batteries

Whilst meeting with a USA company last week I was given some poignant advice. Many companies are claiming great advancement with battery components, mostly with regards to cathodes or anodes, but improvement in any one aspect of a battery is not very meaningful on its own. A battery comprises a sequence of parts; it is a system. Each part of that system needs to improve to end up with a much better battery, because the efficiency of the battery will be limited by its weakest link. It makes sense. Rather than be amazed by improvements in one part of the system, we need to ask how that will work with other components in the battery.

 *"Would I lie to you?"*

The Economist recently ran an article stating that it was now the expected norm that politicians will lie to us. We know they lie. They know they lie. So, the significance of lying cancels out and we move on. Accusing them of lying simply leads to the response of "so, whatever". This observation also helps to explain why we have elected so many minority party members to the Senate. It is the only way we can keep a check on the lying politicians, though this has the effect of weakening the government of the day.

With Trump increasingly looking like he has a chance of winning the Presidency of the United States, we can only

hope that his is lying, or joking, in some of the things he is saying. He is attention seeking while campaigning, but he will be excused for moderating somewhat if he gets into office and backs down on some of the extremism. I think we will all forgive him if he doesn't build a wall between the USA and Mexico.

The same can be said of stock promotion - about lying. The overriding objective of so many companies is to get the share price higher. That is the desire of the shareholders who are (short term) traders, as opposed to long term investors.

Where do you draw the line between extreme promotion and responsible representation? The extreme promoters who are reckless with the truth are the ones the traders flock towards. The rampers have a field day, brokers and traders alike. The "smart" operators decide to run with the wolves, believing they are clever enough to get out before the s#@t hits the fan, while the naive believe that the companies wouldn't tell lies because there are laws against doing so. They are the ones who will be hurt the most.

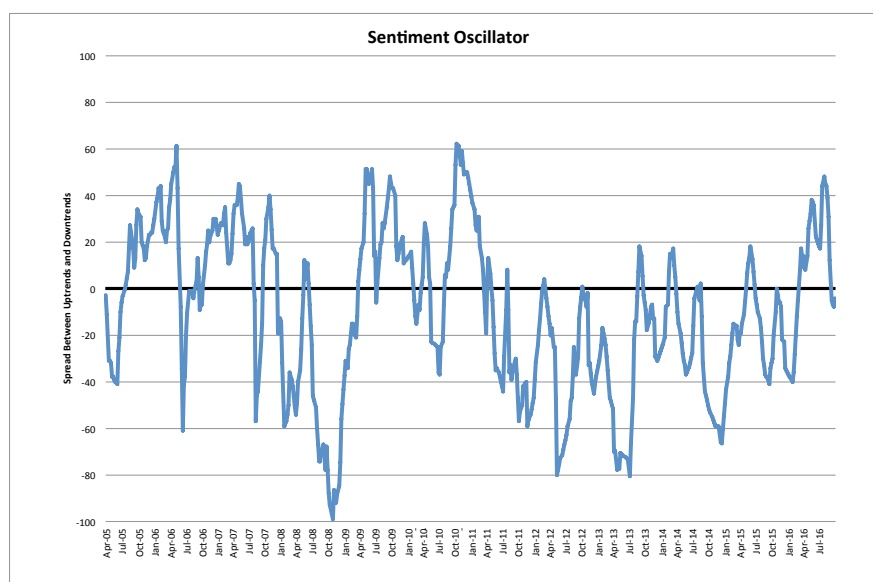
Investors come to me for advice on whether these stocks are worth buying. If I was a purist I would say no, but that sort of advice is somewhat evangelistic. It fails to recognise why the majority of people buy shares. Increasingly I advise these investors to feel free to buy topical stocks even though we know they are lying, but to make sure they sell out before it all collapses. The turnover of shares in these companies are really dominated by gamblers, counting on their ability to snatch and grab profits. It can be very profitable, but it is the domain of the wild wild west (apologies to those in Perth who may think this is directed at them, because they happen to be in the west. It happens in the east as well).

Lucapa finds 104 carat diamond, D quality

LOM announced the recovery of a 104 carat D-colour diamond last week, making it the fifth +100 carat diamond recovered from its Lulo alluvial project in Angola. This comes fast and hard after the recovery of a 38 carat fancy pink diamond. Each of these diamonds will be worth millions of dollars, adding sweetness to the bottom line. With a market capitalisation of \$124m, LOM has the potential to move into the range of \$500-\$1,000m, as more news on the hard rock source of these diamonds comes to market.

We have reinstated Crusader Resources (CAS) to our chart coverage. It has both low and high grade gold projects in Brazil that look promising. Atlas Iron has been deleted; time to move on.

Sentiment Indicator: The fall in sentiment is nearing completion. Both the Metals and Mining and the Energy Indices have just broken their short term downtrends. Significantly, both BHP and RIO look as if they want to move higher. However the All Ords has parked itself right on the resistance line, not having broken it yet. Last week there were 29% (29%) of the stocks in uptrend and 33% (37%) 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.

Indices	Code	Trend Comment	
All Ordinaries	XAO	rallied to hit resistance line	
Metals and Mining	XMM	breached support line	
Energy	XEJ	breached support line	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	breaching downtrend	gold
Aeon Metals	AML	new high	copper + cobalt
Alacer Gold	AQG	stronger	gold – production
Alkane Resources	ALK	new high	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Aguia Resources	AGR	sideways	phosphate
Alicanto Minerals	AQI	up again	gold exploration
Altech Chemicals	ATC	testing support line	industrial minerals
Anova Metals	AWV	new high	gold
Antipa Minerals	AZY	short term down	gold
Archer Exploration	AXE	downtrend	graphite
Argent Minerals	ARD	rallied to meet resistance line	polymetallic
Atrum Coal	ATU	new high	coal
Aurelia Metals	AMI	testing support line	gold + base metals
Auroch Minerals	AOU	rallied to meet resistance line	exploration
Aus Tin	ANW	breached uptrend	tin, cobalt
Australian Bauxite	ABX	turned down at resistance	bauxite
Australian Vanadium	AVL	downtrend	vanadium
Avanco Resources	AVB	sideways at lows	copper
AWE	AWE	heavily down	oil and gas
Azure Minerals	AZS	rallying	silver
BHP	BHP	up again	diversified
Base Resources	BSE	breached uptrend, but rallying	mineral sands
Beach Energy	BPT	long term downtrend in play	oil and gas
Beadell Resources	BDR	breaching downtrend	gold
Berkeley Resources	BKY	rallying	uranium
Blackham Resources	BLK	on support line	gold
Broken Hill Prospect.	BPL	lower	minerals sands, cobalt
Buru Energy	BRU	sideways	oil
Canyon Resources	CAY	down	bauxite

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Cardinal Resources	CDV		new high	gold exploration
Carnegie Wave	CWE		downtrend	wave energy
Cassini Resources	CZI		stronger	nickel/Cu expl.
Chalice Gold	CHN		new high	gold
Consolidated Zinc	CZL		sideways at lows	zinc
Coventry Resources	CYY		ST down	copper
Crusader Resources	CAS		rallying	gold/iron ore
Dacian Gold	DCN		pullback	gold exploration
Danakali	DNK		breaching support	potash
De Grey	DEG		sideways	gold
Doray Minerals	DRM		down	gold
Duketon Mining	DKM		breached support	nickel
Eden Energy	EDE		rallying	carbon nanotubes in concrete
Energia Minerals	EMX		down	zinc
Evolution Mining	EVN		rallying from support line	gold
Excelsior Gold	EXG		breaching downtrend	gold
First Australian	FAR		sideways	oil/gas
First Graphite	FGR		breached support line	graphite
Fortescue Metals	FMG		new high	iron ore
Galaxy Resources	GXY		heavy fall	lithium
Galilee Energy	GLL		breached downtrend	oil and gas, CBM
Gascoyne Resources	GCY		breaching support	gold
Geopacific Res. Resources	GPR		correcting lower	copper/gold exp.
Global Geoscience	GSC		heavy fall	lithium
Gold Road	GOR		breached uptrend	gold exploration
Goldphyre	GPH		short term down	potash, gold
Graphex Mining	GPX		down	graphite
Gryphon Minerals	GRY		new high on takeover bid	gold
Herron Resources	HRR		at highs	zinc
Highfield Resources	HFR		rallying	potash
Highlands Pacific	HIG		sideways around lows	copper, nickel
Hillgrove Resources	HGO		coming off high in a retracement	copper
Hot Chilli	HCH		new low	copper
Iluka Resources	ILU		rallying	mineral sands
Image Resources	IMA		down	mineral sands
Independence	IGO		fallen to support line	gold, nickel
Intrepid Mines	IAU		sideways - 7¢ capital return proposed	copper
Karoo Gas	KAR		sideways	gas
Kibaran Resources	KNL		heading lower	graphite
Kin Mining	KIN		breached short term correction	gold
King Island Scheel.	KIS		new low	tungsten
Kingsgate Consol.	KCN		suspension	gold
Kingsrose Mining	KRM		rising off lows	gold
Legend Mining	LEG		breach of gentle downtrend	exploration
Lithium Australia	LIT		downtrend	lithium
Lucapa Diamond	LOM		rallying	diamonds
Macphersons Res.	MRP		sideways	silver
Manas Resources	MSR		rising	gold
Medusa Mining	MML		breached ST downtrend	gold
Metals of Africa	MTA		back to previous lows	zinc expl/graph.
MetalsX	MLX		fallen to support line	tin, gold
Metro Mining	MMI		correcting within uptrend	bauxite
Mincor Resources	MCR		rallying	nickel
Mineral Deposits	MDL		rallying out of breached	mineral sands
Mustang Resources	MUS		breached downtrend	diamonds, rubies
MZI Resources	MZI		breached uptrend	mineral sands
Northern Minerals	NTU		fallen to support line	REE
Northern Star Res.	NST		rallying	gold

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Oceana Gold	OGC		heavy correction	gold
Oklo Resources	OKU		ST down	gold expl.
OreCorp	ORR		pullback	gold development
Orinoco Gold	OGX		down	gold development
Orocobre	ORE		down	lithium
Oz Minerals	OZL		testing uptrend	copper
Paladin Energy	PDN		new uptrend	uranium
Pacific American Coal	PAK		breached uptrend	coal, graphene
Pantoro	PNR		surge to new high	gold
Panoramic Res	PAN		rising	nickel
Paringa Resources	PNL		sideways	coal
Peel Mining	PEX		gentle uptrend	copper
Peninsula Energy	PEN		falling again	uranium
Perseus Mining	PRU		breaching downtrend	gold
Pilbara Minerals	PLS		falling	lithium/tantalum
Potash West	PWN		falling	potash
Red River Resources	RVR		surge to new high	zinc
Regis Resources	RRL		new high	gold
Renaissance Min.	RNS		new high	gold
Resolute Mining	RSG		on support line	gold
Reward Minerals	RWD		strong rise	potash
Rex Minerals	RXM		back to lows	copper
RIO	RIO		breaching long term resistance	diversified
RTG Mining	RTG		correcting	copper/gold
Rum Jungle	RUM		sideways	quartz
Salt Lake Potash	SO4		steeply higher	potash
Saracen Minerals	SAR		breaching uptrend	gold
St Barbara	SBM		now in a correcting downtrend	gold
Sandfire Resources	SFR		stronger	copper
Santana Minerals	SMI		strong rise	silver
Santos	STO		heavy fall	oil/gas
Sheffield Resources	SFX		new high	mineral sands
Silver City Minerals	SCI		down	base metals
Silver Lake Resources	SLR		down	gold
Silver Mines	SVL		slump	silver
Sino Gas & Energy	SEH		sideways	gas
Southern Gold	SAU		uptrend continuing	gold
Sundance Energy	SEA		sideways	oil/gas
Syrah Resources	SYR		downtrend breached	graphite
Talga Resources	TLG		down	graphene
Tanami Gold	TAM		new high	gold
Tiger Resources	TGS		back to lows	copper
TNG Resources	TNG		surge through resistance	titanium, vanadium
Torian Resources	TNR		breached uptrend	gold expl'n
Toro Energy	TOE		downtrend	uranium
Troy Resources	TRY		secondary downtrend	gold
Tyranna Resources	TYX		rallying	gold exploration
Vimy Resources	VMY		down	uranium
West African Resources	WAF		rallying	gold
Westwits	WWI		breached ST downtrend	gold exploration/development
Western Areas	WSA		rallied to meet resistance line	nickel
White Rock	WRM		down	silver
WPG Resources	WPG		improving following placement	gold
Wolf Minerals	WLF		continuing down	tungsten
Totals	29%	41	Uptrend	
	33%	47	Downtrend	
		141	Total	

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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	37	26.2%
Copper	14	9.9%
Gold Exploration	11	7.8%
Oil/Gas	9	6.4%
Potash/Phosphate	7	5.0%
Mineral Sands	7	5.0%
Graphite	6	4.3%
Zinc	6	4.3%
Silver	6	4.3%
Lithium	5	3.5%
Nickel	5	3.5%
Uranium	5	3.5%
Coal	4	2.8%
Tin	2	1.4%
Bauxite	3	2.1%
Iron Ore	1	0.7%
Diamonds	2	1.4%
Other	11	
Total	141	

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