

Lucapa needs to focus on Angola

Although we rarely mention it, the Information Technology Index has been powering higher in recent weeks. It has risen by almost 100% over the past 18 months. This sort of performance is bound to be sucking speculative money away from the junior resource stocks. We do not comment on individual technology stocks, but seeing broad money flows suggest that is where speculators funds have been heading.

Uranium is taking a breather

The uranium price has dropped back to US\$95/lb following reports that Kazakhstan and McArthur River will be the main contributors to an 11.7% increase in world uranium production in 2024, according to GlobalData. Uranium company share prices have been pared back as a result, which is understandable as traders take profits. The big picture uranium and nuclear power are still relevant.

Lucapa - time to reset expectations

Lucapa's share price has fallen heavily over the past week on high volume. Someone, or more than one person, obviously want to get out and they are prepared to do so by selling the price down. The market capitalisation has fallen to \$30m ahead of a five into one consolidation. The share price is of concern given my previous enthusiasm for the stock that has gone unrewarded. What has gone wrong?

Lulo has been a great diamond mine ...

After a number of years of diligent exploration and evaluation Lucapa emerged as a profitable diamond producer in 2016, from a high value alluvial diamond mine in Angola. Notwithstanding excellent production results, and the resultant profitability, the market remained sceptical about the prospects due to the perceived geopolitical risk in Angola and the minority stake in the mine, at 40% ownership levels. Critics expressed doubts about the likelihood of being able to repatriate loans and funds from Angola, but as we now see, that is not a problem.

... the best intentions didn't deliver at Mothae

In response to the market's concern regarding Angola the Company sought to deflect criticism through the acquisition of the Mothae kimberlite diamond project in Lesotho, purchasing a 70% interest in early 2017 for US\$9m via a tender process. Historical spending at the time had been US\$36m. This hard rock kimberlite mine was supposed to provide better long term resource security, but it didn't work out that way.

Lucapa commissioned a 1.1 Mtpa treatment plant in 2018, and subsequently expanded it to 1.45 Mtpa, but it has always struggled to make a profit. As with many diamond mines, it could hold its head above water from run-of-the-mine production but profitability relied on the recovery of rare but valuable stones at regular intervals. Mothae has

been getting some of these but the quality, and therefore the value, hasn't been there.

Even though Mothae reported record throughput and diamond production in 2023, up 23% and 22% YoY respectively, the EBITDA was only US\$2m. The culprit was a 22.5% fall in the diamond price received when compared to guidance. Most of this fall occurred last October to December when the price came back to US\$400/ct. That led to a US\$13.4m impairment in the accounts to the 31 December, leaving only US\$2.5m worth of value in the balance sheet. The internal loans that were made from Lucapa to the operating company don't look as if they will be repaid.

Lucapa is suitably frustrated with the under-performance of Mothae, to the extent that it is trying to figure out what is the best way forward. Cost cutting is the first step, such as minimising advanced pre-stripping and saving US\$300,000 per month, but something more comprehensive is needed. Could it do a deal with a nearby treatment plant owned by Gem Diamonds to either sell or toll treat through its larger, more efficient 6.2 Mtpa plant? Maybe, but some sort of rationalisation or divestment will need to be considered.

There is a general expectation that diamond prices will improve by 5% p.a. from here. That will help, but mining really needs to move to better quality locations. There is not much colour on where these may be, if they are indeed available at all. That means it will be a hard slog for the foreseeable future unless the mine is sold or rationalised in some other way.

The bottom line is the Lucapa has burnt around US\$50m on Mothae. The strategy to diversify the earnings stream has been a failure. Lulo cash flow has been used to prop up a "dead duck", much to the annoyance of shareholders.

The change of management has been warranted

Who should take responsibility for Mothae? The answer is clearly the CEO at the time. It was his strategy that has failed. Fortunately he departed in Q3 of 2023, and the new CEO, Nick Selby, is determined to make the most out of Mothae for shareholders. Anything better than a US\$2.5m sale price will fetch a profit on book value.

Lulo licences are being renewed

Lucapa has a 40% interest in the 10 year alluvial mining licence, due for renewal in July 2025. This is expected to be procedural.

The five year kimberlite exploration licence is due to be rolled over in May 2024, upon receipt of the application that has been lodged. There is not anticipated to be any problems. On the contrary there is some upside if the open secret coming out of Angola is accurate. It would seem that Lucapa can increase its equity in the exploration license from 39% to 51%, on the granting of a new licence. There

is still paperwork to be completed before this can be formalised, but it seems most likely.

Reported earnings for 2023

In 2023, Lucapa reported consolidated EBITDA of A\$35.8m, down 35% from the A\$48.5m in 2022. Depreciation and impairment charges took this into a post tax loss of US\$10.9m. What figure is the most relevant one going forward? I tend to look at earnings power as demonstrated by EBITDA as this gives a better idea of cash generation before accountants apply all of their rules. Remember that a profit is more of a concept than a hard figure.

The Bottom Line

Lucapa needs to sort out Mothae and focus on its primary income earning asset - Lulo. That mine has a recurring 3-4 year mine life based on JORC resources, with that being a comfortable buffer going forward. The continuous alluvial exploration program is consuming about \$50-60,000 per month, easily financed out of cash flow.

The exploration for the hard rock sources of the alluvials has been a stop/go affair with plenty of encouragement along the way, but without having found the ultimate prize. The frog kissing is continuing in search of the prince but hopefully it is only a matter of time. The company was previously bulk sampling about 5,000 m³ from each pipe, to a depth of 10m and in one location, but it is now taking up to four 1,500m³ samples from each pipe to get more diverse samples from each facies. The quest continues.

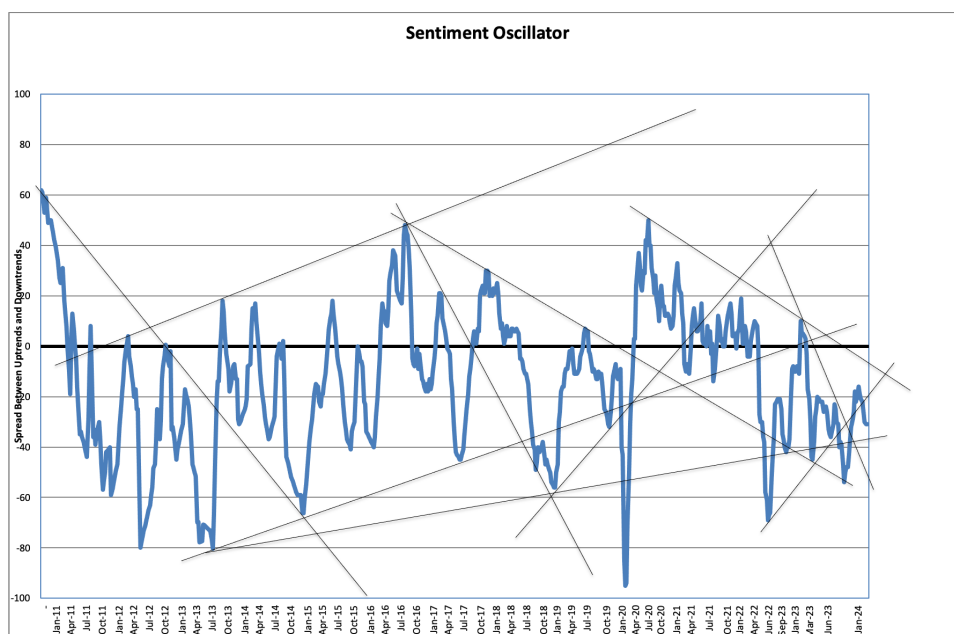
Lucapa is self funding and earning reasonable profits, though with fluctuations from year to year. A couple of >

100 carat, high value stones that are regularly reported can have a big influence on the annual result. The kimberlite exploration is the blue sky factor, though it is testing our patience.

The shares are going through a 5 into one consolidation which will deter some of the day trading, but this event needs to be the line in the sand. Shareholders do not want to see further dilution through an ambitious plan to bring Merlin on stream. That runs the risk of going down the same path as Mothae, no matter what the best intentions may be. Shareholders want to see a return to what the Company does best - produce diamonds at Lulo. Any development of Merlin, in the NT, should be left to a spin-off company. If Lucapa shareholders want to participate in that, they can. If they want to just stick with Lulo, they can. But please, no more stuff ups! No more self serving share issues to satisfy corporate dreams of CEOs in ignorance of creating shareholder wealth

The bad news is in the market. The share price has adjusted. Lucapa now presents itself as a turnaround story that could be good value at these levels. The \$30m price tag under appreciates the potential.

Disclosure: Interests associated with the author owns shares in Lucapa and has received capital raising fees in the past



Sentiment Oscillator: Sentiment was steady. There were 24% (24%) of stocks in uptrend and 55% (54%) 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	new high	
Metals and Mining	XMM	heading down	
Energy	XEJ	pullback	
Information Technology	XIJ	strong uptrend	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
5EA Advanced Materials	5EA	spiked through downtrend	boron
92 Energy	92E	rising	uranium
Adriatic Resources	ADT	new high	zinc, polymetallic
Advance Metals (was Pacific American)	AVM	back to lows	coal, gold exploration
Agua Resources	AGR	down	phosphate, copper exploration
Alkane Resources	ALK	down	gold
Alicanto Minerals	AQI	back to lows	base metals, silver, gold
Alligator Energy	AGE	rising again	uranium
Almonty Industries	All	rising	tungsten
Alpha HPA	A4N	wedge forming	HPA
Altech Chemical	ATC	breaching downtrend	HPA, anodes
Alto Metals	AME	at lows with a placement	gold exploration
American Rare Earths	ARR	surge through downtrend line	rare earths
Anax Metals	ANX	new low	copper
Anteotech	ADO	breached uptrend	silicon anodes, biotech
Antilles Gold	AAU	new low	gold and copper expl.
Arafura Resources	ARU	new low	rare earths
Ardea Resources	ARL	breathing downtrend	nickel
Arizona Lithium	AZL	strong rally	lithium
Astral Resources	AAR	gentle downtrend	gold
Averina	AEV	breaching uptrend	phosphate
Aurora Energy Metals	1AE	breaching correction pattern in LT uptrend	uranium
Aurelia Metals	AMI	sideways	gold + base metals
Australian Rare Earths	AR3	at lows	rare earths
Australian Strategic Materials	ASM	continuing lower	rare earths
Azure Minerals	AZS	another surge higher then pullback	nickel exploration
BHP	BHP	down	diversified, iron ore
Barton Gold	BGD	sideways through support line	gold exploration
Beach Energy	BPT	rising gently	oil and gas
Bellevue Gold	BGL	off its highs	gold exploration
Besra Gold	BEZ	breached downtrend	gold
Black Cat Syndicate	BC8	steep rally	gold
BMG Resources	BMG	down	gold exploration
Boab Metals	BML	heavy fall	silver/lead







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Cadoux (was FYI)	CCM		testing steepest downtrend	HPA
Calidus Resources	CAI		new uptrend	gold
Caravel Minerals	CVV		strong rally	copper
Carnaby Resources	CNB		secondary downtrend	copper
Castile Resources	CST		new uptrend	gold/copper/cobalt
Cazaly Resources	CAZ		back to downtrend	rare earths
Celsius Resources	CLA		sideways	copper
Cobalt Blue	COB		down again	cobalt
Cyprium Metals	CYM		new low	copper
Ecograf	EGR		breaching downtrend	graphite
Emerald Resources	EMR		rising, new high	gold
Empire Energy	EEG		fallen to support line	gas
EQ Resources	EQR		breaching downtrend	tungsten
Euro Manganese	EMN		new low	manganese
Evolution Energy	EV1		new low	graphite
Evolution Mining	EVN		crashed lower	gold
First Graphene	FGR		new high	graphene
Fortescue Metals	FMG		off its high	iron ore
Galena Mining	G1A		suspended	lead
Genesis Minerals	GMD		testing uptrend	gold
Genmin	GEN		suspended	iron ore
Gold 50	G50		down again	gold exploration + gallium
Great Boulder Resources	GBR		new low	gold exploration
Group 6 Metals	G6M		down	tungsten
Hamelin Gold	HMG		new low	gold exploration
Hastings Technology Metals	HAS		back to lows	rare earths
Hazer Group	HZR		testing downtrend	hydrogen
Heavy Minerals	HVY		new low	garnet
Hillgrove Resources	HGO		rising gently	copper
Iluka Resources	ILU		heavy fall	mineral sands
ioneer (was Global Geoscience)	INR		new low	lithium
Ionic Rare Earths	IXR		breached downtrend	rare earths
Jervois Mining	JVR		new low	nickel/cobalt
Jindalee Lithium	JLL		back to lows	lithium
Kaiser Reef	KAU		new low	gold
Krakatoa Resources	KTA		new low	rare earths
Kingfisher Mining	KFM		breached downtrend	rare earths
Lepidico	LPD		new low	lithium
Lindian Resources	LIN		new low	rare earths + bauxite
Lion One Metals	LLO		heavy fall - suspension	gold
Li-S Energy	LIS		new low	Lithium sulphur battery technology
LCL Resources	LCL		new low	gold exploration
Lotus Resources	LOT		rising	uranium
Lucapa Diamond	LOM		sideways	diamonds

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Lunnon Metals	LM8	■	new low	nickel
Lynas Corp.	LYC	■	still down	rare earths
Marmota	MEU	■	rising	gold exploration
Mayur Resources	MRL	■	strongly higher	renewables, cement
Meeka Gold	MEK	■	down	gold
MetalsX	MLX	■	down	tin, nickel
Meteoric Resources	MEI	■	down	rare earths
Metro Mining	MMI	■	improving	bauxite
Midas Minerals	MM1	■	slump	lithium
Nagambie Resources	NAG	■	down	gold, antimony
Neometals	NMT	■	new low	lithium
Newfield Resources	NWF	■	down	diamonds
Nexgen Energy	NXG	■	rising	uranium
Northern Star Res.	NST	■	rising	gold
Nova Minerals	NVA	■	off its highs	gold exploration
Pacific Gold	PGO	■	new low	gold exploration
Paladin Energy	PDN	■	new high	uranium
Pantoro	PNR	■	breached short term uptrend	gold
Patriot Battery Metals	PMT	■	bounced off new low	lithium
Peak Resources	PEK	■	new low	rare earths
Peninsula Energy	PEN	■	breached downtrend	uranium
Perseus Mining	PRU	■	testing support line	gold
Poseidon Nickel	POS	■	new low	nickel
Provaris Energy	PV1	■	down	hydrogen
QMines	QML	■	new low	copper
Queensland Pacific Metals	QPM	■	new low	nickel/cobalt/HPA
RareX	REE	■	new low	rare earths, phosphate
Regis Resources	RRL	■	turned down again	gold
Reergen	RLT	■	down	gas, helium
Richmond Vanadium	RVT	■	rising	vanadium
RIO	RIO	■	off its highs	diversified, iron ore
Rumble Resources	RTR	■	new low	gold exploration
S2 Resources	S2R	■	down	gold exploration
Sandfire Resources	SFR	■	rising again	copper
Santos	STO	■	weaker	oil/gas
Sarama Resources	SRR	■	sideways	gold exploration
Sarytogan Graphite	SGA	■	new low	graphite
Siren Gold	SNG	■	bounced from lows	gold exploration
South Harz Potash	SHP	■	new low	potash
Southern Cross Gold	SXG	■	breached support line, then rallied	gold exploration
Southern Palladium	SPD	■	testing downtrend	PGMs
Stanmore Coal	SMR	■	testing uptrend	coal
Strandline Resources	STA	■	suspended	mineral sands
Sunstone Metals	STM	■	meeting resistance line	gold/copper exploration

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Suvo Strategic Minerals	SUV		rising	kaolin
Talga Resources	TLG		rallying	graphite
Tamboran Resources	TBN		rising again	gas
Technology Metals	TMT		down	vanadium
Theta Gold Mines	TGM		breached downtrend	gold
Thor Energy	THR		new uptrend	uranium
Tietto Minerals	TIE		surge on takeover approach	gold
Vanadium Resources	VR8		drifting lower	vanadium
Venture Minerals	VMS		rising	tin, tungsten
Vintage Energy	VEN		breached downtrend	gas
Voltaic Strategic Resources	VSR		new low	REO + lithium
West Cobar	WC1		new low	rare earth + lithium
Westgold Resources	WGX		breached uptrend	gold
West Wits Mining	WWI		sideways	gold
Whitehaven Coal	WHC		testing uptrend	coal
Xantippe Resources	XTC		suspended	lithium
Zenith Minerals	ZNC		new low	gold exploration
Totals	25%	35	Uptrend	
	55%	76	Downtrend	
		138	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	18	13.0%	
Gold	19	13.8%	
Rare Earths	14	10.1%	

Lithium	10	7.2%	
Copper	9	6.5%	
Uranium	9	6.5%	
Oil/Gas	8	5.8%	
Nickel	6	4.3%	
Iron Ore/Manganese	5	3.6%	
Graphite/graphene	5	3.6%	
Silver	4	44.4%	
Tungsten	3	2.2%	
Mineral Sands	2	1.4%	
Vanadium	3	33.3%	
Zinc/Lead	2	1.4%	
Coal	2	1.4%	
Potash/Phosphate	3	2.2%	
Bauxite	2	1.4%	
Tin	2	1.4%	
Cobalt	1	0.7%	
Diamonds	2	1.4%	
Other	9		
Total	138		

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