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

3 December 2022 *Chart comments at Friday's close.* Analyst : Warwick Grigor

Market is performing well in the lead up to Christmas

We have been experiencing an end-of-year rally that has been taking the big end of town much closer to the earlier highs of 2022. Many smaller stocks have improved, but nowhere near as strongly. There has been another wave of capital raisings that has tended to truncate the revival of this, more speculative end. Three months ago brokers were worried about income, now the big brokers are again starting to suffer deal fatigue as we approach the Christmas shutdown.

Standing back, it seems that there is some sort of equilibrium coming through to market sentiment. Inflation has abated a little and while interest rates are still expected to rise, no-one seems phased by more modest rate rises. Commodity markets have readjusted themselves for the Ukraine War impact. Life goes on.

China's aggressive growth curve used to be the reason for optimism in the market, with its apparently insatiable demand for raw materials underpinning many commodity prices. That has all changed now. There is no slipstream to carry us along anymore. China has torched its credibility , meaning there is a focus on weaning ourselves off dealings with China where possible. Critical metal supply chains are fostering widespread interest elsewhere. Again, life goes on.

Perhaps it it time to ponder about what will be the key drivers as we prepare for 2023.

Inflation is just one of many market influences

As equity markets have been kicked in the guts in 2022, by inflation and rising interest rates, it is worth taking time to put these trends into perspective, especially as they are just part of the big picture. The market is showing signs of understanding this observation.

Higher interests rates dampen demand as money becomes more expensive, but at this juncture demand is not really the problem; it is supply. Rather than trying to reduce demand, there needs to be more focus on increasing supply. However, governments are not as well equipped to influence supply. The initiative needs to come from industry that will react to pricing signals in the market place and strive to increase supply in order to capture higher profits, consistent with Adam Smith's invisible hand, but it takes time. There is a risk that naive governments will intervene with higher taxes on so called super profits, but that will just have the effect of reducing potential supply. That is exactly the sort of counter productive intervention we don't need.

Monetary policy theory simplistically says that you can control inflation with interest rates, but that is almost like using chemotherapy to fight cancer. The patient suffers greatly as the treatment works indiscriminately. Some people might say that the cure is worse than the disease (though I must confess up front that I have no experience in this field of medicine).

In this period of economic history we are seeing the war in Ukraine as a major cause of inflationary pressures due to its impact on energy prices, starting in Europe with the shock waves going all around the world. Coming at the same time that the climate change hysteria is causing a choking of traditional hydrocarbon and fossil fuel sources of electricity, the supply side problems are predictably getting worse. Higher energy prices feed all the way into every pricing aspect of modern society. Inflation is inescapable.

The easiest way for investors to have made money over the last 12 months is through having energy stocks in the portfolio, with the demonised coal companies being the biggest winners. Many alternative energy and battery input stocks have performed very well, but in most cases this is about speculation rather than genuine earnings. Speculators have been front running stocks that are supposed to have a strong future, as always, but the facts need time to catch up with the expectations, if they can.

At the end of the day the rising interest rates and inflation just represent additional elements that need to be factored into stock market expectations. There is a whole myriad of other influences that can also drive sentiment and share prices, that rise and fall in importance on any day or week. It is the changes in expectations that move markets one way or the other as opposed to the steady state existence of these elements. Markets are forward looking. They form expectations and then react according to over-delivery or under-delivery.

Alpha HPA seems to be delivering on promises

We looked at high purity alumina (HPA) stocks a couple of years ago as it was one of the hotspots in the market at the time. All but one of the companies that we compared were relying on kaolin deposits as a feedstock for intentions to produce +99.99% purity HPA . That company, Alpha HPA (A4N), is the only one of the group that has not seen its share price fall heavily in 2022. Two pieces of news last week saw the share price hit a new high and a market capitalisation of $617m.

On Tuesday it announced that the Stage 1 Precursor Production Facility in Gladstone, Qld, was in the final stages of chemical commissioning. It has now produced 3,300 kg of aluminium nitrate pre-curser crystal, reaching 70% of the nameplate capacity of 800 kg/day. Remember that HPA is needed for the lithium-ion battery and LED lighting industries. The second announcement related to receipt of $6.82m of Government funds, part of a $15.5m grant under the Critical Minerals Development Program (CMDP).

The secrecy around Alpha's feedstock has been both alluring and a source of uncertainty, at least for those who like to dig deeply into the science. It is always a red light when companies don't provide total transparency on the technology as there is a risk it could just be promotion.

Given the success of Alpha so far, it is probably time to be feeling more comfortable with its "secret input".

That then begs the question; is it necessary to have a kaolin mine for HPA? The lack of Kaolin mines being developed over the decades has been one of the sectors most notable features. It was the downstream uses of kaolin, to produce HPA, that was one of the reasons for the revival of interest in kaolin stocks. It was a doorway to participating in battery input activity, but having kaolin is not a condition precedent to joining this game. You just need feedstock like Alpha's.

That puts Suvo Strategic (SUV) in an interesting position. It already has an operating kaolin mine so access to that feedstock source is procedural. Yet, is is pursuing a different route. See its ASX releases where it says it is investing in new technology that will use recycled aluminium feedstock. Will this be comparable to Alpha's methodology? What does it say about all the other prospective kaolin producers that want to go down a different path? Who has the greatest commercial benefit? We watch the sector with keen interest.

Meeka is telling us what we need to know

Meeka Metals (MEK) is adding substance to the news flow regarding its recently announced Circle Valley REE discovery near Esperance, in WA. It has stated that 90.4% of the valuable rare earths elements can be recovered in the -20 μm size fraction using simple screening and hydro-cyclone classification, whilst removing up to 65.5% of the mass. The grade effectively improves by up to 91% across the range of rare earths elements through physical beneficiation.

So, that is the first step. The next one involves leach tests on the - 20 μm fraction to develop a recovery curve for both ammonium sulphate (ionic portion of the rare earth elements) and acid (non-ionic portion of the rare earth elements). These more complicated tests will tell us what recovery rates to expect and they will offer up information as to what will be the optimum mix and methodology. That may take a while to finesse.

As we have been saying, merely declaring a discovery and releasing assays is only the start of a journey. The critical information is the metallurgical test work which has many different aspects as the scientists work to recover a commercial product. Meeka is on the right path so far.

Qld Pacific Metals Crunched on Feasibility Study

QPM shareholders would have been disappointed to see the share price crunched down by 5¢ (28%) upon the release of a positive feasibility study for the TECH Project recently. Stage 1 of this nickel and cobalt project shows steady state EBITDA of $546m, pre-tax NPV of $2.66bn and an IRR of 18.4%.

Maybe the market didn't like the capex price tag of $1.9bn given the pre-feasibility study came in at a much lower figure of $650m. Bear in mind that the plant size is 2.7x that of the pre-feasibility study, meaning the increase is almost proportional.

The market capitalisation of QPM sits at $227m, a long way short of the required capex. That means the project won't proceed without a substantial debt package, a big equity raising and possibly also a senior joint venture partner. When a project this size gets to the funding stage you can usually expect it to go into a black hole for at least a year. So, maybe the traders just decided to move on.

It raises an interesting question. How relevant is the NPV or the IRR to stock market investors? Who really pays any attention to them, given that there is so often such a gulf between release of a study and the funding, even when the NVP and the IRR look wonderful. Do financiers even place much value on these measures? How credible are they, really, given the list of assumptions? Personally, I prefer to look a cash generation and earnings power, with caps payback also a good indicator.

Drilling sector has slowed considerably in WA

Speaking to a WA exploration company last week, it was interesting to hear that rig availability for the gold sector is no longer a problem. Assays are coming back from the labs in 2-3 weeks, which is much better than the three month turnaround we were seeing six months ago, and RC drilling rates have dropped by 20% over the last three months. Much of the exploration sector's focus has been on lithium and rare earths with those commodities requiring lower cost air core and RAB rigs. So, inflation has gone into reverse … for some.

Los Cerros is diversifying geopolitical risk

We know that Los Cerros is sitting on a multi-million gold project in Colombia, but the Company has recently added another dimension to its operations with the purchase of exploration projects in PNG. Whereas the market was becoming less enamoured with Colombia, notwithstanding the company-making potential, the speculators have embraced the PNG projects with vigour.

PNG has always been a very exciting exploration destination with world class projects, but it is still a difficult and expensive country in which to operate. Fortunately LCL is well funded with an $11m cash balance.

Shareholders should be pleased with the initiative at this juncture as it has breathed life into the share price. There is nothing wrong with taking on new projects and providing a second string to the bow. Remember though, that it is still exploration and therefore speculative.

Disclosure: Interests associated with the author own shares in Los Cerros

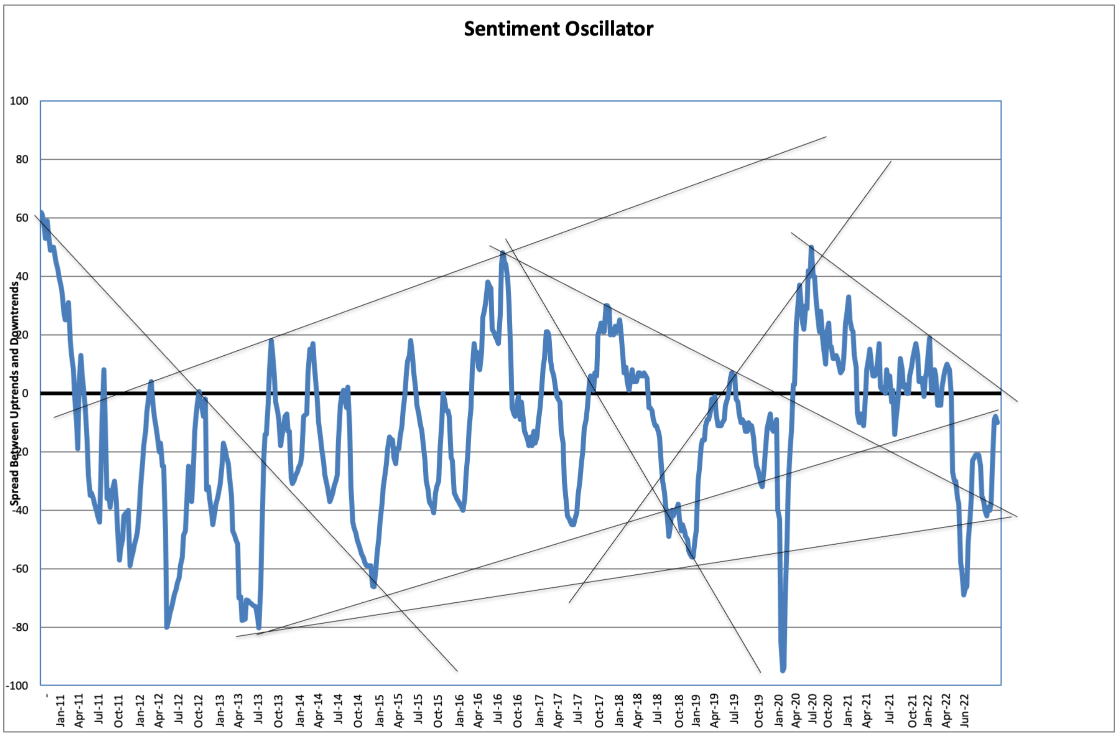
Hard to see consistency in ASX governance

Companies are frequently expressing frustration with the intervention or obstruction of intended company releases, as the ASX uses its rather capricious methodology to determine what companies are allowed to say, or not. Perhaps the inconsistencies result from the ASX not having the staff numbers to do its job properly, but it might also come down to a lack of standardisation of staff training levels that result in excessive personalisation of decisions. What ever, the lack of consistency is a serious problem.

As an example, I refer to a release made last week by a company that will remain nameless, because that company is not the focus of this column. That company provided a "graphite anode offtake update."

The release said that it continues to "*use commercially reasonable efforts*" and it is "*now at advanced stages of* *negotiations*" in accordance with a "*non-binding Offtake Term Sheet*" previously announced. While it expects an outcome shortly, it caveats that "*there can be no guarantee that the documentation will be finalised*."

I am just wondering why this "news" is worthy of an ASX release at all. It just says we are continuing to talk. There is nothing of substance here, so why even bother? Why did the ASX approve this release when there are many examples of it knocking back other companies that want to make releases that are arguably more informative? Perhaps more importantly, how is it that the ASX allowed the price sensitive tag to be used? Please explain.



Sentiment Oscillator: There was a slight dip in sentiment last week. There were 28% (30%) of the charts in uptrend and 38% (38%) 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		steeply higher	
Metals and Mining	XMM		surged higher	
Energy	XEJ		uptrend	
Information Technology	XIJ		higher	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
92 Energy	92E		testing ST uptrend	uranium
A-Cap Energy	ACB		breached support	uranium
ADX Energy	ADX		sideways	oil and gas
Alpha HPA	A4N		new high	HPA

Adriatic Resources	ADT		new high	zinc, polymetallic
Advance Metals (was Pacific American)	AVM		down	coal, gold exploration
Alkane Resources	ALK		testing downtrend	gold
Alicanto Minerals	AQI		risen to resistance line	base metals, silver, gold
Altech Chemical	ATC		testing uptrend	HPA, anodes
Anteotech	ADO		new low	silicon anodes, biotech
Alto Metals	AME		at resistance	gold exploration
American Rare Earths	ARR		down	rare earths
Antilles Gold	AAU		new low	gold
Arafura Resources	ARU		good bounce	rare earths
Ardea Resources	ARL		testing support	nickel
Aurelia Metals	AMI		risen to resistance line	gold + base metals
Australian Rare Earths	AR3		breached steepest downtrend, then pullback	rare earths
Auteco Minerals	AUT		rising from lows	gold exploration
Arizona Lithium	AZL		failed at resistance line	lithium
Azure Minerals	AZS		breached new uptrend	nickel exploration
BHP	BHP		rising	diversified, iron ore
Barton Gold	BGD		breached downtrend	gold exploration
Beach Energy	BPT		uptrend breached	oil and gas
Bellevue Gold	BGL		strongly higher	gold exploration
Benz Mining	BNZ		breached new uptrend	gold
Black Cat Syndicate	BC8		breached steepest downtrend, then pullback	gold
Blue Star Helium	BNL		sideways through downtrend	gas, helium
BMG Resources	BMG		down	gold exploration
Boab Metals	BML		breached downtrend, then pullback	silver/lead
Breaker Resources	BRB		stronger	gold exploration
Buru Energy	BRU		strong rally	oil
Calidus Resources	CAI		new low	gold
Capricorn Metals	CMM		strongly higher	gold
Caravel Minerals	CVV		at resistance	copper
Castile Resources	CST		down	gold/copper/cobalt
Celsius Resources	CLA		testing downtrend	copper
Chalice Mining	CHN		down	nickel, copper, PGMs, gold exploration
Chesser Resources	CHZ		new low	gold exploration
Cobalt Blue	COB		breaching downtrend	cobalt
Cyprium Metals	CYM		testing steepest downtrend	copper
Dateline	DTR		at lows	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		testing steepest downtrend	gas
Euro Manganese	EMN		down	manganese

Evolution Mining	EVN		strongly higher	gold
Firefinch	FFX		suspended	gold
First Graphene	FGR		risen to final resistance line	graphene
Fortescue Metals	FMG		breached downtrend	iron ore
FYI Resources	FYI		sideways through downtrend	HPA
Galena Mining	G1A		breaching final resistance	lead
Galilee Energy	GLL		sideways	oil and gas, CBM
Genesis Minerals	GMD		rising	gold
Genmin	GEN		rising	iron ore
Gold Road	GOR		strongly higher	gold
Great Boulder Resources	GBR		softer	gold exploration
Hastings Technology Metals	HAS		improving	rare earths
Hazer Group	HZR		testing downtrend	hydrogen
Heavy Minerals	HVY		still in downtrend	garnet
Highfield Resources	HFR		breached steepest downtrend	potash
Hillgrove Resources	HGO		testing downtrend	copper
Iluka Resources	ILU		still down	mineral sands
Image Resources	IMA		testing resistance line	mineral sands
ioneer (was Global Geoscience)	INR		testing resistance line	lithium
Ionic Rare Earths	IXR		breaching uptrend	rare earths
Jervois Mining	JVR		new low	nickel/cobalt
Kaiser Reef	KAU		sideways through downtrend	gold
Kallina Power	KPO		new uptrend commenced	power station additive
Kingston Resources	KSN		breaching steepest downtrend	gold
Krakatoa Resources	KTA		rising	rare earths
Kingfisher Mining	KFM		new high	rare earths
Kingwest Resources	KWR		recovering from lows	gold
Lepidico	LPD		new low	lithium
Lindian Resources	LIN		breached short term downtrend	bauxite
Lion One Metals	LLO		breached downtrend, then pullback	gold
Los Cerros	LCL		breached downtrend	gold exploration
Lotus Resources	LOT		sideways through downtrend	uranium
Lucapa Diamond	LOM		down again	diamonds
Lunnon Metals	LM8		trying to recover uptrend	nickel
Lynas Corp.	LYC		turned down at resistance line	rare earths
Magnetic Resources	MAU		surge on REO news, then retracement	gold exploration
Mako Gold	MKG		down	gold exploration
Marmota	MEU		drifting lower	gold exploration
Matador Mining	MZZ		new uptrend commenced	gold exploration
Mayur Resources	MRL		breached uptrend, heavy fall	renewables, cement
Meeka Gold	MEK		stronger	gold
Megado Gold	MEG		new low	rare earths, gold exploration
MetalsX	MLX		sideways through downtrend	tin, nickel
Metro Mining	MMI		testing downtrend	bauxite

Mincor Resources	MCR		down	gold/nickel
Mithril Resources	MTH		sideways	gold/silver
Musgrave Minerals	MGV		still falling, gently	gold exploration
Nagambie Resources	NAG		sideways	gold, antimony
Neometals	NMT		falling	lithium
Northern Star Res.	NST		strong rise	gold
Nova Minerals	NVA		slump on placement	gold exploration
Orecorp	ORR		surge higher	gold development
Oz Minerals	OZL		new high on takeover bid	copper
Pacific Gold	PGO		bounced to meet resistance line	gold exploration
Pantoro	PNR		new low	gold
Panoramic Res	PAN		down	nickel
Peak Resources	PEK		rising	rare earths
Peninsula Energy	PEN		down	uranium
Poseidon Nickel	POS		still down	nickel
Perseus Mining	PRU		steeply higher	gold
Provaris Energy	PV1		back in downtrend	hydrogen
PVW Resources	PVW		down	rare earths
QMines	QML		breached downtrend, then correction lower	copper
Queensland Pacific Metals	QPM		slump. still in downtrend	nickel/cobalt/HPA
Regis Resources	RRL		breached downtrend	gold
Renergen	RLT		down	gas, helium
Resource Mining Corp.	RMI		gently down	nickel exploration
RIO	RIO		higher	diversified, iron ore
Rumble Resources	RTR		secondary downtrend	gold exploration
S2 Resources	S2R		sideways	gold exploration
St Barbara	SBM		bouncing	gold
Sandfire Resources	SFR		strongly higher	copper
Santos	STO		breached trend line support	oil/gas
Sarama Resources	SRR		down	gold exploration
Silex Systems	SLX		breached uptrend	uranium enrichment technology
South Harz Potash	SHP		still in downtrend	potash
Southern Cross Gold	SXG		strongly higher	gold exploration
Stanmore Coal	SMR		surge higher	coal
Strandline Resources	STA		breaching uptrend	mineral sands
Sunstone Metals	STM		breached steepest downtrend	exploration
Suvo Strategic Minerals	SUV		falling	kaolin
Talga Resources	TLG		rising again	graphite
Tamboran Resources	TBN		breached downtrend	gas
Technology Metals	TMT		down	vanadium
Theta Gold Mines	TGM		strong rise from lows - at resistance	gold
Thor Mining	THR		sideways through downtrend	gold exploration
Tietto Minerals	TIE		new high	gold
Vanadium Resources	VR8		new low	vanadium

Venture Minerals	VMS		testing ST uptrend	tin, tungsten
West African Resources	WAF		breached downtrend	gold
Westgold Resources	WGX		breaching downtrend	gold
West Wits Mining	WWI		new low	gold
Whitehaven Coal	WHC		down	coal
Zenith Minerals	ZNC		breached steepest downtrend	gold exploration
Totals	28%	39	Uptrend	
	38%	54	Downtrend	
		141	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**	**22.7%**	
Gold Exploration	**23**	**16.3%**	
Rare Earths	**12**	**8.5%**	
Oil/Gas	**11**	**7.8%**	
Nickel	**8**	**5.7%**	
Copper	**8**	**5.7%**	
Iron Ore/Manganese	**6**	**4.3%**	
Uranium	**5**	**3.5%**	
Zinc/Lead	**3**	**2.1%**	
Lithium	**4**	**2.8%**	
Graphite/graphene	**3**	**2.1%**	
Coal	**3**	**2.1%**	

Mineral Sands	**3**	**2.1%**	
Potash/Phosphate	**2**	**1.4%**	
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	**8**		
Total	**141**		

FEC Disclosure of Interests: It is a requirement of ASIC that holders of AFS licences prominently disclose any conflicts of interest. At all times readers should be aware that Far East Capital Ltd is an active investor. It shares its research and opinions free of charge to other investors and it aims to do so on an ethical basis. Accordingly, when it is writing about stocks in which it holds interests, these will be disclosed. The author is chairman of First Graphene and one of the largest shareholders, through a number of entities. Over the last three years FEC has received capital raising fees from a number of companies but it does not receive payment for research. See individual disclosure notes in the body of the Weekly where they are relevant. Its primary business is investing and managing its own money, but it does occasionally raise money for resource companies.

Disclaimer: This Research Report has been prepared exclusively for Far East Capital clients and is not to be relied upon by anyone else. In compiling this Commentary, we are of necessity unable to take account of the particular investment objectives, financial situation and needs of any of our individual clients. Accordingly, each client should evaluate the recommendations obtained in this Commentary in the light of their own particular investment objectives, financial situation and needs. If you wish to obtain further advice regarding any recommendation made in this Commentary to take account of your particular investment objectives, financial situation and needs, you should contact us. We believe that the advice and information herein are accurate and reliable, but no warranty of accuracy, reliability or completeness is given and (except insofar as liability under any statute cannot be excluded) no responsibility arising in any other way for errors or omissions or in negligence is accepted by Far East Capital Limited or any employee or agent. For private circulation only. This document is not intended to be an offer, or a solicitation of an offer, to buy or sell any relevant securities (i.e. securities mentioned herein or of the same issuer and options, warrant, or rights with respect to or interests in any such securities). We do not guarantee the accuracy or completeness of the information herein, or upon which opinions herein have been based. At any time we or any of our connected or affiliated companies (or our or their employees) may have a position, subject to change, and we or any such companies may make a market or act as principal in transactions, in any relevant securities or provide advisory or other services to an issuer of relevant securities or any company therewith. Unless otherwise stated all views expressed herein (including estimates or forecasts) are solely those of our research department and subject to change without notice. This document may not be reproduced or copies circulated without authority.