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FAR EAST CAPITAL

The Mining Investment Experts

Weekly Commentary

7 December, 2019 *On Friday's Close* Analyst : Warwick Grigor

Now ASIC is picking on mining IPOs

"ASIC to crack down on conflicts in mining IPOs"

It is coincidental that a week after I comment that transparency of pricing in small mining IPOs is a problem, ASIC fires off a warning about conflicts of interest in the same. It warns of "*illegal behaviours and actions that could harm investors*", and "*grubby activity by lead managers*" with conflicts of interest.

I'm not sure what ASIC is on about. It seems to be taking a very academic approach that shows a lack of understanding of what a small mining IPO really is.

As I said last week, an IPO is an expensive and difficult exercise given the amount of compliance work that needs to be undertaken, for the amount that is raised. It is a high risk endeavour, for everyone, and that is even before the company achieves a listing and starts exploration.

Lead managers, advisors and all vested interested have to work together to get an IPO over the line. One of the most difficult tasks is organising a spread of shareholders. It involves a great deal of paperwork for very little return, but it is an ASX requirement. Rather than be troubled about potential conflicts of interest, an IPO often only succeeds because of a convergence of interests. It serves no purpose to talk about conflicts of interest in an IPO, questioning whether a lead manager or advisor is working for the company or the shareholders. A team effort is needed.

As I said, it is difficult to know where ASIC is going with this one. Has it found the occasional IPO that it doesn't like, and so it is going to make it even tougher in terms of compliance, for every IPO? It is bad policy to be making laws based on minority behaviour as it penalises even those behaving well. Will more rules make it even harder, such that an IPO is effectively closed off as a commercially feasible exercise for juniors?

I never read a prospectus from cover to cover. There is too much non-commercially relevant information in them that pales into insignificance when you are looking at the real indicators. I only ever glance at a prospectus to determine who the people are and to see if they have good or poor reputations and track records. I look at the capital structure and how greedy vendors and promoters are in getting set early, and then I look at the projects. As with all juniors there is risk everywhere; left, right and centre.

Like I said last week, the biggest initial risk is the lack of price discovery. Having a share register that is carefully selected with longer term investors rather than hot traders is an important job for the lead manager, though ASIC doesn't seem to think so.

Of one thing you can be certain; every time the regulator gets involved, a market and its participants suffer … and more lawyers get work.

Placing commentary in perspective

There is always one smart aleck in the crowd who takes great delight in pointing out what I said in previous editions of the Weekly when it doesn't prove to be 100% accurate. How endearing! The reality is that we live in a dynamic world. Research and commentary is out of date the day after it is written. All readers need to appreciate this and make adjustments accordingly.

As an example, last Saturday I commented that the property boom seemed to be over and the market was expecting a weaker rather a stronger interest rate in Australia. Then on Tuesday morning the AFR says "*Here we go again on house prices*" after Sydney property prices surged 2.7% in November. The reaction from economists was immediately to call for a new round of "*macro prudential tightening*". If I'd written this Weekly based on the performance of the Dow on Monday and Tuesday, the conclusions could have been very different to those of today, after the strong close in the last couple of days. The crystal ball is always hazy.

Markets are a never-closing colosseum where you can be both right and wrong, depending on when you want to stop the clock to suit the argument. That is why not everyone makes money.

The markets were sitting at historical highs prior to the previous week, then Trump tweeted! It seems that the best inside information nowadays is knowing when Trump is going to tweet. It is amazing that markets can move so quickly and in such amounts from something as spasmodic as a tweet. Is Trump actually a smart puppeteer, or just a reckless attention seeker? Whatever, his tweets are moving markets more aggressively than anything else at the moment.

Lucapa's response to shareholder frustrations

I spent a few days in Perth last week catching up with companies and experiencing the 42^0 heat as a variation to the Sydney smoke. High on the list of priorities was finding out why the Lucapa share price just keeps falling.

The first point the CEO stressed to me was that the whole international diamond sector has been a dog. The share prices of the seven leading companies listed in Australia, Canada and the UK have fallen by an average of 66% in 2019. The worst performer was down 87% and the best was still down 44%. Lucapa was only down 44%, so it outperformed the sector.

The second point was that the diamond prices have been the weakest link with the price for small stones falling for two and a half years. The larger, quality stones haven't been treated as harshly, being protected up until April/May, 2019. However, some softness came into the market in the middle of this year. Nevertheless, there has been some light at the end of the tunnel over the last six weeks, with

De Beers and Alrosa holding back some product from the market. Prices have improved a little.

There has been some structural change in the market over the last couple of years that needs to be understood, that relates more to the financing of the diamontiers rather than supply and the demand for diamonds. Finance has been harder to obtain from banks and this has led to reduced ability to maintain stockpiles, meaning less stability in the market.

Next, look at Lucapa's diamond production operations. The Lulo alluvial diamond mine is now in its fifth year of operation. Everything seems to be going well with the Company on track to meet guidance/budget for 2019. The new, US$12m mining fleet is on schedule to lift throughput by 50% in 2020, from up to nine different locations. By the end of 2019, 80% of the US$12m capital expenditure will have been paid off from positive cash flows. The hard rock Mothae mine in Lesotho looks like it will exceed earlier forecasts, in its first year of production. There is certainly nothing to worry about.

The debt position is US$21m at present, reducing by small amounts. This level of debt is tiny compared to many other diamond companies. One of the near term objectives is to restructure the debt so as to benefit from lower interest rates.

Lucapa reported a net profit after tax of $1.6m in the six months to June 2019, being a big turnaround from a loss of $6.4m in the corresponding period for 2018. I would expect a better result in the six months to December as the production from Mothae gathers momentum, with further improvements expected in 2020.

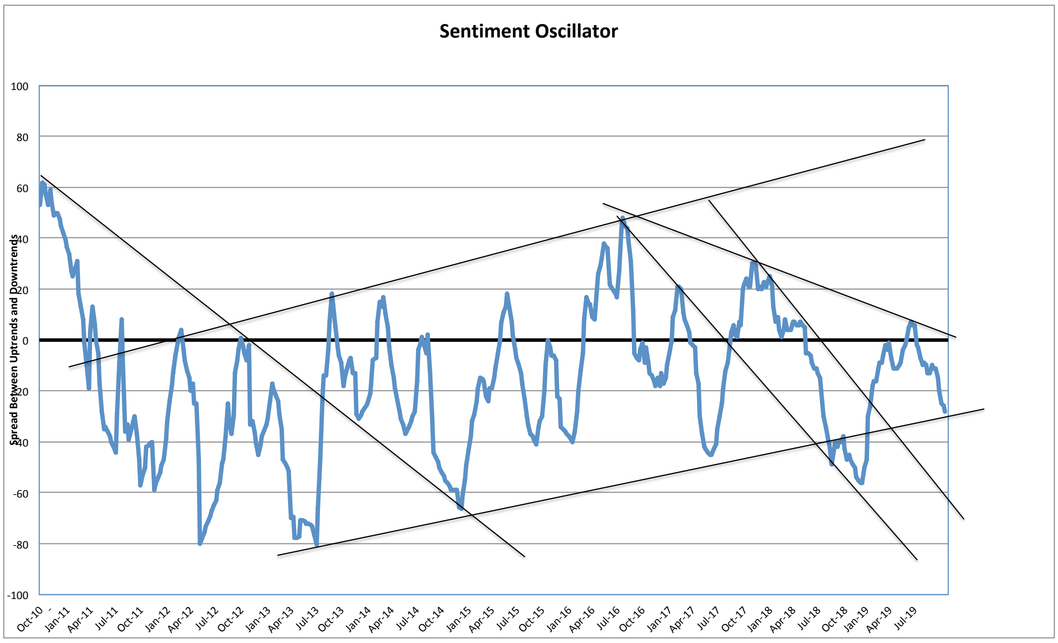
The bottom line is that the company has a sound balance sheet and it is profitable. Its strengths are the quality of its production in terms of size and value, the outperformance of its new hard rock mine and its mix of producing and exploration assets. Yes, the share price has been disappointing, but at least there is sound fundamental value. The company is well placed for the turnaround of the sector's fortunes, whenever that may be.

Disclosure: Interests associated with the author own shares in Lucapa Diamond Corp.

Alicanto IP survey on Wolf Mountain

A couple of weeks ago Alicanto announced some very high grade copper sampling results from Wolf Mountain (11.9% Cu), at its Bergslagen Project in Sweden. It has followed these up with results from an IP geophysical survey that identified multiple, large scale and undrilled copper/gold targets at Wolf Mountain. This points to both high grade and large tonnage target that need to be drill tested. The story is evolving, positively.

Disclosure: Interests associated with the author own shares in Alicanto Minerals. Capital rating fees have been received.



Sentiment Oscillator: The market is poised for a Christmas, or New Year rally in the juniors? There were 25% (25%) of the charts in uptrend and 53% (51%) 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		heavy slump but above support	
Metals and Mining	XMM		holding uptrend	
Energy	XEJ		holding uptrend	
Stocks	**Code**		**Trend Comment (updated comments in bold)**	**Main Interest**
Alpha HPA	A4N		stronger	HPA
Adriatic Resources	ADT		new high	zinc
Aeon Metals	AML		new low	copper + cobalt
Alacer Gold	AQG		new high	gold – production
Alkane Resources	ALK		testing support line	gold, zirconia
Acacia Resources	AJC		Sideways at the bottom	coal
Alicanto Minerals	AQI		new low	gold exploration
Allegiance Coal	AHQ		breached support,	coal
Alliance Resources	AGS		trying to hold support	gold exploration
Apollo Consolidated	AOP		back to support line	gold exploration
Arafura Resources	ARU		breached downtrend	rare earths
Argent Minerals	ARD		down	silver
Aurelia Metals	AMI		testing downtrend	gold + base metals
Australian Potash	APC		uptrend breached	potash
Australian Mines	AUZ		base forming	cobalt/nickel
Australian Vanadium	AVL		new low	vanadium
BHP	BHP		rising after downtrend breached	diversified, iron ore
Base Resources	BSE		down	mineral sands
Bathurst Resources	BRL		down	coal
BBX Minerals	BBX		new low	gold exploration
Beach Energy	BPT		risen through resistance line	oil and gas
Beacon Mining	BCN		breached downtrend	gold production
Bellevue Gold	BGL		breached support, downtrend	gold exploration
Berkeley Energia	BKY		in secondary downtrend	uranium
Blackstone Minerals	BSX		testing downtrend	nickel
Bounty Coal	B2Y		still in downtrend	coal
Breaker Resources	BRB		down	gold exploration
Broken Hill Prospecting	BPL		bounced on Thakaranga determination	minerals sands
Buru Energy	BRU		turning down	oil
Buxton Resources	BUX		continuing down	nickel exploration
Capricorn Metals	CMM		consolidating 5 into 1	gold
Cardinal Resources	CDV		down	gold exploration
Cassini Resources	CZI		softer	nickel/Cu expl.
Central Petroleum	CTP		down	oil/gas
Chalice Gold	CHN		ST downtrend commencing	gold exploration

Chase Mining	CML		heavy slump	nickel/copper/PGE
Chesser Resources	CHZ		sideways at highs	gold exploration
Cobalt Blue	COB		sideways	cobalt
Dacian Gold	DCN		turning down on LT resistance line	gold
Danakali	DNK		drifting lower	potash
Davenport Resources	DAV		broken lower	potash
Egan Street Resources	EGA		under takeover offer, but weaker	gold
Emerald Resource	EMR		gentle downtrend	gold
Evolution Mining	EVN		approaching support line in ST downtrend	gold
Exore Resources	ERX		higher for placement then slump	gold exploration
FAR	FAR		new low	oil/gas
First Graphene	FGR		short term down	graphene
Fortescue Metals	FMG		new high	iron ore
Galaxy Resources	GXY		new low	lithium
Galena Mining	G1A		slump	lead
Galilee Energy	GLL		downtrend forming	oil and gas, CBM
Gold Road	GOR		testing downtrend	gold
Graphex Mining	GPX		drifting lower	graphite
Heron Resources	HRR		new low	zinc
Highfield Resources	HFR		down heavily	potash
Hillgrove Resources	HGO		sideways	copper
Iluka Resources	ILU		breached downtrend	mineral sands
Image Resources	IMA		down	mineral sands
Independence Group	IGO		new high	gold, nickel
ioneer (was Global Geoscience)	INR		resting on support	lithium
Jervois Mining	JVR		sideways at lows	nickel/cobalt
Jindalee Resources	JRL		heavy fall	lithium
Karoon Gas	KAR		heading lower	gas
Kasbah Resources	KAS		new low	tin
Kibaran Resources	KNL		new low	graphite
Kin Mining	KIN		down again	gold
Kingston Resources	KSN		down	gold
Legend Mining	LEG		stronger	nickel exploration
Lepidico	LPD		down	lithium
Lindian Resources	LIN		Uptrend	bauxite
Lithium Australia	LIT		new low	lithium
Lucapa Diamond	LOM		new low	diamonds
Lynas Corp.	LYC		heavy fall	rare earths
Mako Gold	MKG		rising off lows	gold exploration
Marmota	MEU		down	gold exploration
MetalsX	MLX		new low	tin, nickel
Metro Mining	MMI		gentle uptrend	bauxite
Mincor Resources	MCR		continuing higher	gold
Musgrave Minerals	MGV		new high	gold exploration

Myanmar Minerals	MYL		new low	zinc
Nelson Resources	NES		heavy fall	gold exploration
Neometals	NMT		continuing down	lithium
Northern Cobalt	N27		surge out of downtrend	cobalt
Northern Minerals	NTU		down	REE
Northern Star Res.	NST		down heavily	gold
NTM Gold	NTM		new high	gold exploration
Oceana Gold	OGC		heavy fall	gold
Oklo Resources	OKU		stronger	gold expl.
Orecorp	ORR		drifting lower	gold development
Oro Verde	OVL		rising	rare earths
Orocobre	ORE		testing downtrend	lithium
Oz Minerals	OZL		surged higher in long-term uptrend	copper
Pacific American Holdings	PAK		at lows	coal
Pacifico Minerals	PMY		rising	silver/lead
Pantoro	PNR		down	gold
Panoramic Res	PAN		up - takeover bid	gold , nickel
Peak Resources	PEK		stronger	rare earths
Peel Mining	PEX		sideways	copper
Peninsula Energy	PEN		sideways	uranium
Pensana Metals	PM8		at lows	rare earths
Perseus Mining	PRU		new high	gold
Pilbara Minerals	PLS		down	lithium
PNX Metals	PNX		new uptrend forming	gold, silver, zinc
Polarex	PXX		breached uptrend	polymetallic exploration
Prodigy Gold	PRX		down	gold exploration
Ramelius Resources	RMS		heavy fall	gold production
Real Energy	RLE		new uptrend	gas
Red5	RED		less steep downtrend	gold
Red River Resources	RVR		now in secondary downtrend	zinc
Regis Resources	RRL		breached support	gold
Resolute Mining	RSG		down	gold
RIO	RIO		rising again	diversified, iron ore
Salt Lake Potash	SO4		breached uptrend	potash
Saracen Minerals	SAR		breached uptrend	gold
St Barbara	SBM		down	gold
Sandfire Resources	SFR		down	copper
Santos	STO		into uptrend	oil/gas
Saturn Metals	STN		uptrend breached	gold exploration
Sheffield Resources	SFX		down	mineral sands
St George Mining	SGQ		down	nickel
Sipa Resources	SRI		recovered, to sideways pattern	general exploration - Ni,Cu, Co, Au
Spectrum Metals	SPX		falling from highs	gold exploration
Stanmore Coal	SMR		down	coal

Strandline Resources	STA		breaching downtrend	mineral sands
Syrah Resources	SYR		free fall on capital raising	graphite
Talga Resources	TLG		breached downtrend	graphite
Technology Metals	TMT		sideways	vanadium
Vango Mining	VAN		moving higher	gold
Venturex	VXR		new low on resignation of CEO	zinc
Vimy Resources	VMY		sideways under LT downtrend	uranium
West African Resources	WAF		down after breaching support	gold
Westgold Resources	WGX		breached uptrend	gold
Westwits	WWI		down	gold
Western Areas	WSA		on support line	nickel
Whitebark Energy	WBE		rising	oil and gas
Whitehaven Coal	WHC		down	coal
Yandal Resources	YRL		breached ST uptrend	gold exploration
Zinc Mines of Ireland	ZMI		breached uptrend	zinc
Totals	25%	35	Uptrend	
	53%	73	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	**30**	**21.7%**	
Gold Exploration	**20**	**14.5%**	
Oil/Gas	**9**	**6.5%**	
Nickel	**8**	**5.8%**	
Lithium	**8**	**5.8%**	
Coal	**7**	**5.1%**	

Zinc/Lead	**10**	**7.2%**	
Mineral Sands	**6**	**4.3%**	
Rare Earths	**6**	**4.3%**	
Potash/Phosphate	**5**	**3.6%**	
Copper	**5**	**3.6%**	
Cobalt	**3**	**2.2%**	
Graphite	**4**	**2.9%**	
Tin	**2**	**1.4%**	
Iron Ore	**3**	**2.2%**	
Uranium	**2**	**1.4%**	
Bauxite	**3**	**2.2%**	
Vanadium	**2**	**1.4%**	
Silver	**2**	**1.4%**	
Diamonds	**1**	**0.7%**	
Other	**2**		
Total	**138**		

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