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FAR EAST CAPITAL
The Mining Investment Experts

Weekly Commentary

26 June 2015 *On Friday's close* *Analyst: Warwick Grigor*

Apart from the Greek circus the markets are marking time, so let's have a look at a quality diamond distraction

Time to face reality on the Greek debt

The markets are performing as you might expect in June, upon seasonal factors as much as anything else. However, this month there is the added factor of the Greek debt problem. This is one of the most drawn out sagas we have seen in a long time, with the on again off again nature starting to exhaust even the traders.

Whatever the commentators are saying, there will have to be billions of dollars of debt written-off, whether Greece remains in the Euro or not. If you can't see that by now, then you must be blind. There is no way Greece can trade itself out of its financial problems, so what is the point of providing more credit and compounding the problem? It doesn't have the industry or the tax base. It is a basket case. It is pointless to try and pretend it is salvageable.

The best thing for everyone will be if Greece retires to the interchange bench for a few years. It needs its own currency that can drift lower, or perhaps collapse, if that is what it takes to get to the point where money will flow back into its economy. This will remove the need for austerity being imposed by the politicians. Economic reality will take over. Once its currency stabilises at a much lower level, Greece could be readmitted to the Euro, if that is seen as a good thing at the time. In the meantime we could all go there for a cheap holiday and do our bit to boost the Greek economy.

Lucapa Diamond Company Site Visit

I returned from Africa late last week having visited projects and opportunities in Angola, Botswana and South Africa. The highlight was a four-day site visit to Lucapa's Lulo diamond project in Angola. We were fortunate enough to be doing the visit along with Dr John Ward, one of the world's leading diamond geologists. His insights and comments were very helpful.

The first point to make is that Lulo lies near the edge of the craton where the crust is thinner. This explains why there is a large number of kimberlites and why there has been such a large proportion of high value Type IIa diamonds recovered to date. It also means they will continue to be recovered.

The mining operation itself is technically simple and relatively low cost. Mining is conducted with excavators that remove free digging overburden to expose the diamond bearing gravels. These gravels are in extensive terraces that lie on either side of the Cacuilo River, extending for the entire mining lease length of 50 km. The experience to date has been that where there are gravels there are diamonds, of varying grades.

The treatment process is also relatively simple, with gravels passing through a feed bin into a scrubber trommel and then into a DMS unit prior to recovery and sorting of diamonds. Lucapa is planning improvements to the plant to better cater for the receiving of wet ore and higher clay content, and to further improve final recoveries.

The priority for the Company right now is to increase throughput from the first target of 10,000 bank cubic metres (BCM) to 20,000 BCM per month, and then ultimately to 40,000 BCM per month by mid 2016. A new excavator, dozer, grader and three articulated dump trucks are currently being secured for delivery, enabling the 20,000 BCM rate to be achieved some time in Q3 2015. This level of throughput is considered essential as it increases the frequency of the high value stones being recovered and it starts to provide economies of scale.

Shareholders can look forward to continuing improvements in operations over coming months as production progressively ramps up.

Getting back to the geology, there is no doubt that this is an exceptionally favourable environment for diamonds. There is an extraordinarily large number of kimberlite pipes that could be shedding diamonds, but it will take time to locate the best and richest sources. (It should be remembered that only a small proportion of kimberlite pipes are actually diamondiferous, and a lesser number carry commercial grades).

Analysis of the ilmenites and garnets being recovered during the mining of the gravels suggests that there are source pipes very close to the mining; as close as 1-3 km away. The diamonds haven't travelled very far. The gravels could be as young as 0.5-1.0 million years old, and they don't seem to have been transported very far as the Cacuilo valley is a low energy river system. Experts have suggested that the pipes may have been only marginally eroded, by 10m or less. That means that the pipes could have a lot more to offer than say, a pipe that eroded by 100-150m as is experienced elsewhere in Angola and Africa.

Mining of the gravels and analysing the ilmenites and the garnets will provide very good information as to the location of the pipes. This may be more cost effective than specific kimberlite drilling and sampling, which could distract productive capability from the alluvial operations. Eventually the kimberlites will have to be sampled, but with improved confidence that they are diamondiferous. It is noteworthy that in Angola there haven't been any productive kimberlite pipes found without the assistance of scaled alluvial diamond mining and prospecting.

Diamond mines are not so much discovered as they are made. Many hard rock mines take 10 years or more to progress from discovery to full-scale mining, often

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changing hands at least once over this time frame. Alluvial mines on the other hand can be identified, prospected and brought into commercial production much faster and on much smaller capital expenditure budgets. That is where Lucapa is now. The pipes and hard rock mines will come, in due course.

The prerequisite for any successful operation is good management. That is a strong point for Lucapa. It would be difficult to imagine a junior diamond company with better, more experienced management than Lucapa. Thus, my conclusion on leaving the site was that this is a company destined for great success in the diamond business. It just needs a little more time to deliver. *Disclosure: Interests associated with the author owns shares in Lucapa, and fees have been earned in capital raisings in the past six months.*

Atrum suspension raises important issues

On 4/6/15, Atrum Coal ("ATU") asked for a trading halt due to variations in the terms of loans secured over ATU shares held by Russell Moran and Gino D'Anna, executive director and secretary, respectively. This rolled into a suspension on 9/6/15. On the 22/6/15, the voluntary suspension was extended further until 30/6/15, to enable it time to meet its continuing disclosure obligations. It stated that this was due to insufficient information regarding the abovementioned loans.

Interestingly, the two officers of the Company had obtained an injunction and suppression orders from the Supreme Court of WA to prevent any disclosure to the ASX, but these were vacated on 19/6/15. What were these gentlemen trying to conceal?

ATU has disclosed that the two officers had taken out unsecured loans with a repayment date of 31/7/14, amounting to $7.5m in total. The loans were capable of being extended to 31/10/14, if security was provided over 24 million shares in ATU. It now appears that these loans have not been repaid. The revised due dates are the 17th and 18th July 2015, with additional shares offered as security. It is likely that a failure to repay the loans would lead to a sell-down in the market.

There is an issue as to whether there was a breach of escrow provisions with the shares offered as security. Initially there were no shares offered as security, but the extension of the repayment to 31st October did involve the pledging of escrowed shares, which is expressly prohibited.

Shareholders have two reasons for being unhappy. The first is the alleged breach of escrow provisions and failure of effective corporate governance. The second, more pragmatic concern is the inability to trade shares. It is a fundamental principle of an ASX listed company that its shares will trade. Taking away tradeability severely compromises the value of the shares, for any shareholder. *What right do directors have to do this?* Why can't the ASX just say that the shares must still trade if the market is fully informed? The shareholders will be lining up at the gate with a likely selling frenzy once it is opened, which doesn't auger well for the share price. If the loans are not repaid there will be even more shares on offer. It is not a good situation to be in.

Atrum has been one of the best performing shares in recent years, defying the horrible bear market in coal stocks. That supports the theory that companies with less rigorous compliance regimes perform better in the market … but at what ultimate cost?

Sentiment Indicator: The green shoots that were coming through in May have decided to go back underground for a while. Sentiment has taken a dive over the past month with there now being 33% (41%) of the stocks in uptrend and 37% (23%) in downtrend.

Key Indices

Stocks			Trend Comment
All Ordinaries	XAO		down
Materials	XMJ		
Metals and Mining	XMM		down
Energy	XEJ		

Detailed Chart Comments

NB: Only the bold comments have been updated. Comments in grey type are from previous weeks and will be less relevant.

Stocks	Code		Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU		Breached one downtrend	gold exploration
Aeon Metals	AQR		Testing downtrend	copper + cobalt
Alacer Gold	AQG		sideways	gold – production
Alkane Resources	ALK		In decision point of a wedge	gold, zirconia
Alliance Resources	AGS		collapse	uranium
Acacia Resources	AJC		Sideways at the bottom	coal
African Energy	AFR		Correction back to downtrend line	coal

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Alara Resources	AUQ		Strong bounce	zinc
Anatolia Energy	AEK		sideways	uranium
Anova Metals	AWV		Easing a little	gold
Argent Minerals	ARD		Breached downtrend	polymetallic
Atlas Iron	AGO		suspended	iron ore
Atrum Coal	ATU		suspended	coal
Aura Energy	AEE		Back to lows	uranium
Aurelia Resources	AIM		Down, new low	gold/base metals
Australian Bauxite	ABX		Testing uptrend	bauxite
Avanco Resources	AVB		sideways	copper
AWE	AWE		Turned down	oil and gas
BHP	BHP		down	diversified
Base Resources	BSE		Breached downtrend	mineral sands
BC Iron	BCI		Down again	Iron ore
Beach Energy	BPT		Rising gently	oil and gas
Beadell Resources	BDR		Secondary downtrend	gold
Berkeley Resources	BKY		Strong rise out of wedge	uranium
Blackham Resources	BLK		Strong uptrend	gold
Broken Hill Prosp.	BPL		Back to support	minerals sands
Buru Energy	BRU		Down again	oil
Canyon Resources	CAY		Downtrend being tested	bauxite
Carnegie Wave	CWE		down	wave energy
Cassini Resources	CZI		downtrend	Nickel/Cu expl.
Chalice Gold	CHN		sideways	gold
Cobre Minerals	CXB		Strong rise, with a pullback	lithium
Consolidated Tin	CSD		Meeting resistance	tin
Convergent Minerals	CVG		downtrend	gold
Cudeco	CDU		downtrend	copper
Dacian Gold	DCN		Breached uptrend	gold exploration
Doray Minerals	DRM		downtrend	gold
Duketon Mining	DKM		down	nickel
Eden Energy	EDE		uptrend	carbon nanotubes
Endeavour Mining	EVR		Testing uptrend	gold
Energy Resources	ERA		collapse	uranium
Evolution Mining	EVN		rising	gold
Excelsior Gold	EXG		down	gold
First Australian	FAR		down	oil/gas
Fortescue Metals	FMG		down	iron ore
Galaxy Resources	GXY		Rising off lows	lithium
Geopacific Res.	GPR		Surge to meet long term resistance	Copper/gold exp.
Gold Road	GOR		Rising again	gold exploration
Gryphon Minerals	GRY		Testing downtrend	gold
Highfield Resources	HFR		Correcting after a placement	potash
Highlands Pacific	HIG		New high	copper, nickel
Hillgrove Resources	HGO		New low on management changes, share issue	copper
Hot Chili	HCH		down	copper
Iluka Resources	ILU		Turned down	mineral sands
Independence	IGO		Breached uptrend	gold, nickel
Intrepid Mines	IAU		sideways	copper
Investigator Res.	IVR		Sideways	silver
Karoon Gas	KAR		down	gas
Kasbah Resources	KAS		Down after hitting resistance	tin
KBL Mining	KBL		Surge higher	copper/gold/zinc
Kibaran Resources	KNL		On support	graphite
Kin Mining	KIN		downtrend	gold
King Island Scheel.	KIS		Breached uptrend	tungsten
Kingsgate Consol.	KCN		Breached downtrend	gold
Kingsrose Mining	KRM		Testing uptrend	gold
Lucapa Diamond	LOM		Breaching downtrend then a pullback	diamonds
Macphersons Res.	MRP		downtrend	silver
Medusa Mining	MML		Uptrend breached	gold
Merlin Mines	MED		sideways	diamonds
Metallum	MNE		Down	copper
Metals of Africa	MTA		down	zinc expl/graph.
MetalsX	MLX		Off its high	tin, gold
Mincor Resources	MCR		Hitting resistance	nickel
Minera Gold	MIZ		New low	gold

Mount Gibson	MGX		Base forming	iron ore
MRL Corp	MRF		Steep rise followed by pullback	graphite
Newfield Resources	NWF		rising	diamonds
Northern Minerals	NTU		Breached uptrend	REE
Northern Star Res.	NST		Testing short term downtrend	gold
Oceana Gold	OGC		Strong rise	gold
Oklo Resources	OKU		rising	gold expl.
OM Holdings	OMH		down	manganese
Orinoco Gold	OGX		rising	gold expl'n
Orocobre	ORE		Down heavily	lithium
Oz Minerals	OZL		Uptrend, but pullback to support line	copper
Paladin Energy	PDN		down	uranium
Pacific American	PAK		Base forming	coal
Pacific Niugini	PNR		rising	gold
Panoramic Res	PAN		down	nickel
Panterra Gold	PGI		Rising off lows	gold production
Paringa Resources	PNL		Short term uptrend	coal
Peel Mining	PEX		Steep rise	copper
Peninsula Energy	PEN		Rising, but pullback	uranium
Perseus Mining	PRU		Testing uptrend	gold
Platina Resources	PGM		sideways	PGMs, gold
Red Mountain	RMX		Sideways	gold exploration
Regal Resources	RER		Testing uptrend after hitting resistance	copper
Regis Resources	RRL		sideways	gold
Renaissance Min.	RNS		down	gold
Resolute Mining	RSG		Secondary downtrend	gold
Reward Minerals	RWD		Breached downtrend	potash
Rex Minerals	RXM		sideways	copper
RIO	RIO		falling	diversified
RTG Mining	RTG		breached downtrend	gold expl.
Saracen Minerals	SAR		higher	gold
St Barbara	SBM		Spiked up again	gold
Sandfire Resources	SFR		rising	copper
Santos	STO		Rising	oil/gas
Senex Energy	SXY		Slump to support line	oil/gas
Sheffield Resources	SFX		Recovering a little	mineral sands
Silver City Minerals	SCI		Uptrend	base metals
Silver Lake	SLR		New low	gold
Sino Gas & Energy	SEH		down	gas
Sirius Resources	SIR		takeover	nickel expl.
South Boulder	STB		rising	potash
Sthn Hemisphere	SUH		down	copper
Stavely Minerals	SVY		Vertical rise, then pullback	Copper exploration
Strategic Energy	SEY		down	Graphite tech.
Sunbird Energy	SNY		down	gas/CBM
Sundance Energy	SEA		holding uptrend	oil/gas
Syrah	SYR		Breached downtrend	graphite
Talga Resources	TLG		Correcting following placement	graphene
Tap Oil	TAP		rising	oil/gas
Tiger Resources	TGS		Strong bounce from lows	copper
Toro Energy	TOE		down	uranium
Triton Minerals	TON		Turned down	graphite
UraniumSA	USA		Secondary downtrend	uranium
Valence Industries	VXL		down	graphite
Venture Minerals	VMS		Hitting resistance	tin, iron
Westwits	WWI		Rising off lows	gold exploration
Western Areas	WSA		Bounced off lows	nickel
Totals	33%	43	Uptrend	
	37%	49	Downtrend	
		131	Total	

Split of Companies Charted Amongst Commodities (approx.)

Gold	29	(22%)
Copper	19	(15%)
Oil/gas	11	(8.5%)
Gold exploration	9	(6.9%)
Uranium	9	(6.9%)
Graphite	7	(5.4%)
Nickel	6	(4.5%)
Iron ore	4	(3.0%)
Diamonds	4	(3.0%)
Coal	5	(3.8%)
Tin	4	(3.0%
Mineral Sands	4	(3.0%)
Zinc	3	(2.3%)
Silver	3	(2.3%)
Bauxite	2	(1.5%)
Lithium	2	(1.5%)
Other	10	
Total	131	

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.

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