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On Friday's Close

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Lucapa's Mothae acquisition ticks all the boxes

The markets appeared to be gun-shy last week in response to some of the executive orders of President Trump, with a number of stocks giving back recent gains. So far these moves are more in the leaders. BHP breached a steep short term uptrend. The All Ord gave up further ground and breached a short term uptrend. Even though gold staged a good recovery during the week a number of the producers seem to be marking time at present.

Lucapa - Mothae Project acquisition is a smart move

LOM has been delivering on the diamond production front with sales of US\$51m from the Lulo mine in 2016. It is the most impressive alluvial diamond mine in the world today. Yet there are still many investors that balk at buying Lucapa shares because of the location in Angola. Investors don't seem to trust the government. The geology speaks for itself but it is an alluvial diamond mine, not hard rock, so it is more difficult to establish JORC resources. LOM has a minority interest in the mine, holding only 40% equity. Even though it is proving very profitable and a great cash generator, investors seem to want more.

Conscious of the negatives expressed above, LOM has been on the lookout for a good project which addresses these concerns, outside of Angola. Many projects have been considered and rejected as being unsuitable or too low quality when compared to the Lulo productions. At the end of the day any new acquisition had to complement the high value production and be of institutional quality or it wouldn't be worth doing. The Mothae kimberlite project seems to tick all the boxes.

While only a small kimberlite at 8.8 ha in surface area, it hosts high value stones at US\$1,000-2,000/ct with plenty of Type 11a diamonds. As a hard rock deposit it is much easier to establish JORC resources and plan ahead. At this point the figure is 1 mill. carats. The Kingdom of Lesotho is a much safer jurisdiction than Angola, in the eyes of investors, and a 70% equity is a much more meaningful stake.

It is strange that the market has sold down Lucapa shares upon the news hitting the market. Some commentators have said that doing this deal is an acknowledgement of the geopolitical risk in Angola and so now they are nervous about Angola. Really! Where have these people been hiding over the last two years? Couldn't they have figured this out earlier? Lulo is a great cash cow. It holds enormous promise and it is delivering on the production front, but it makes sense to diversify geographically whether you are in Angola, South Africa, Mali or any other country. A one-mine company is always more vulnerable to interruptions to production or capricious governments than a company that has diversified earnings. Buying into Mothae is a smart move and management should be congratulated on the initiative, not criticised.

There are many occasions where analysts criticise a deal when it is announced, and get it wrong. A good case in

point is when MetalsX purchased the gold assets for \$40m, and paid them off within 12 months. It subsequently spun them out at a valuation many times that figure. The senior mining analyst at Canaccord bagged the deal at the time but it just goes to show that the so-called "experts" can easily get it wrong. Conversely, there are many examples of analysts judging a deal to be a great one, only to find that it subsequently goes horribly pear shaped. There is no substitute for taking the time to understand the deal and the numbers.

So, what are the key aspects of the Mothae deal? How is it going to make money for LOM? First up, the US\$9m acquisition price is a big discount on how much has been spent on the project to date, \$36m, but why would the owner be a seller? Some history is needed.

The kimberlite was first discovered by local prospectors many years ago, in the 1960s. Since then it has gone through a number of hands including those of Lonrho. More recently in 2006, Motapa Diamonds Inc. from Vancouver picked up a 100% interest in the licence. It was encouraged by the location of Mothae just 5 km to the NW of the Letseng kimberlite, a prolific high value diamond deposit. In 2007, it granted Bannockburn Resources the right to earn a 70% interest by spending up to US\$10m but that deal didn't seem to go anywhere and Motapa was subsequently taken over by Lucara Diamond Corp, in mid 2009.

While a series of bulk samples established the credentials of the kimberlite Lucara found itself in the position of having two diamond projects but only enough funds to develop one of them. So, it signed a deal in May 2015, to allow AIM-listed Paragon Diamonds Ltd to acquire a 75% interest in Mothae for US\$8.5m. At the time it calculated a NPV of US \$115m for a 13 year life at Mothae, applying a 12% DR. Paragon released findings of two independent studies in September 2015, revealing the potential for average diamond prices of US\$2,000/ct from a 2 Mtpa mine that would produce 40,000 carats p.a. However, Paragon's plans fell over when it couldn't finance the deal. Lucapa has subsequently picked up the deal for US\$9m.

The acquisition comes with existing infrastructure, a camp and a diamond processing plant. Lucapa believes it can be in production within 12 months with a payback period of only 18 months. Initial production will come from open pit mining to a depth of 55m for the first three years at a rate of 720,000 tpa, through a 100 tpa plant. Capex is estimated at US\$12m for this phase. Importantly, Lucapa expects existing funds and operating cash flows will be sufficient to fund the development. Thus it will be a low risk development. Further out, the phase two development will see a treatment rate of 2 mtpa (300 tph), taking mining to a depth of 255 m.

The development of hard rock diamond mines is a very different exercise to most other mining products due to the extensive amount of time required to bulk sample the kimberlite material. Diamond distribution within pipes can

be somewhat chaotic with multiple eruptive events. Achieving statistical confidence is the challenge and there can be surprises all the way. Mothae has been bulk sampled on a number of occasions with varying results (31 bulk samples mining 603,000 tonnes), but we know enough about it now to characterise it has a high value diamond pipe. It hosts large, premium-value diamonds with the largest stone recovered to date being 254 carats, while gems quality diamonds have achieved a sale price as high as US\$41,500/ct. Total diamonds recovered amount to 23,446 carats at an average grade of 3.88 cph. There were 98 stones larger than 10 carats.

The ASX release states that LOM needs to go on a roadshow to explain the benefits of the transaction. It is aware that there is not much diamond expertise in the Australia investment community. However, with a bit of education, I am certain that there will be a new wave of buying for Lucapa as it establishes itself as a premium diamond company. *Disclosure: I have been adding to my holding over recent days.*

Cobalt update

The cobalt price continues to rise, as expected, taking cobalt hopefuls higher. From a starting position of only a handful of cobalt companies we are seeing a steady stream of entrants to the field. Some are pure exploration plays with a sniff of sampling results, and this is where you are most likely to see invigorating grades. However, they are most likely being managed for sensationalism in the stock market. Treat them as punting stocks.



In playing the cobalt market there are two main types of risk. The first one is the exploration risk. Will the sampling lead to good drill results and will these lead to a resource being determined? If so, there could be dramatic uplift in prices. That would be a perfect, though unlikely result. Nevertheless there could be great trading opportunities.

The second risk comes into play once a resource has been established. It is the development and commissioning risk. In between these two categories of risk are many projects that have cobalt merit but are stranded assets because they don't justify developing. The exciting discovery phase has passed but preliminary studies preclude them from going any further down the development path.

Sentiment Indicator: The sentiment improved again. There were 41% (35%) of the charts in uptrend and 23% (22%) in downtrend.

As it happens there are many orebodies already with stated nickel, copper or polymetallic resources that include a cobalt component. These have been around for a while but have not previously passed muster on the economics. This will be because the projects are uneconomic on the primary metal. Nevertheless, this is not going to stop junior companies from wheeling them out again for cobalt promotion. A good case in point is Talga Resources which has recently had a run on its share price because it has dusted off the Kiskama IOCG project in Sweden. It's a good talking point but the likelihood that a junior company can develop a project like this is very remote.

Most of the projects are large tonnage low grade propositions requiring hundreds, if not billions of dollars to develop. They are in the "too hard" basket. If you want something more advanced than the exploration plays, and you are prepared to undertake development and commissioning risk, you need to look to those projects with low capex in addition to better than 20% of the anticipated revenue coming from cobalt.

Cobalt Blue is an unusual deposit in that the primary product will be sulphur. It needs good sulphur or sulphuric acid prices as opposed to nickel or copper prices. It looks as if the capex for this project will be much more modest than for laterite nickel or IOCG projects. With a starting resource of 35 Mt, and potential to increase to 100 Mt, it has good critical mass.

One of the tasks I'm working on is a comparative table of the cobalt companies, ranking them in order of the proportion of income that might come from cobalt. That should cut through some of the hyperbole.

Philippines on the no-go list

News out of the Philippines last week that OceanaGold's Didipio copper/gold mine would have its permit suspended, along with several others, means that this country should now be off everyone's shopping list. Any ASX-listed company with a project in the Philippines should be heavily discounted in the market. There is enough risk in mining without having to deal with capricious jurisdictions like this one. Oceana has said that it has had no such formal notice but speculation around this issue is not going to help the share price.

Uranium price continues to recover

The uranium spot price is continuing to recover, rising above US\$25/lb. It will probably be back to US\$30/lb soon.

Cardinal Resource has spiked on metallurgical news

A couple of weeks ago we pointed out the there was little downside in the CDV share price following a negative reaction to initial metallurgical test results. Last week's release stated that a revised process flow sheet could recover > 80% of the gold and oxide gold recoveries were better than 90%. The shares jumped from 25¢ to 35¢ on the day.

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	testing support	
Metals and Mining	XMM	another new high	
Energy	XEJ	continues to improve	
Stocks	Code	Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	strongly higher, then heavy pullback	gold
Aeon Metals	AML	new high	copper + cobalt
Alacer Gold	AQG	breached resistance line	gold – production
Alkane Resources	ALK	nudging resistance line	gold, zirconia
Acacia Resources	AJC	Sideways at the bottom	coal
Aguia Resources	AGR	down again	phosphate
Alicanto Minerals	AQI	gentle uptrend commenced	gold exploration
Alltech Chemicals	ATC	rising	industrial minerals
Anova Metals	AWV	rising gently	gold
Antipa Minerals	AZY	back in downtrend	gold
Apollo Consolidated	AOP	crunched on preliminary metallurgical tests	gold exploration
Archer Exploration	AXE	now in a secondary downtrend	magnesite, graphite
Argent Minerals	ARD	new uptrend	polymetallic
Aspire Mining	AKM	continuing down	coal
Atrum Coal	ATU	lower	coal
Aurelia Metals	AMI	breaching downtrend	gold + base metals
Auroch Minerals	AOU	improving	exploration
Aus Tin	ANW	down	tin, cobalt
Australian Bauxite	ABX	breakdown confirmed	bauxite
Australian Potash	APC	continuing higher	potash
Australian Vanadium	AVL	rising gently	vanadium
Avanco Resources	AVB	rising	copper
AWE	AWE	testing downtrend	oil and gas
Azure Minerals	AZS	crunch down on Kennecott withdrawal	silver
BHP	BHP	breaching uptrend	diversified
Base Resources	BSE	rising	mineral sands
Bathurst Resources	BRL	correcting lower	coal
Battery Minerals	BAT	sideways	graphite
Beach Energy	BPT	breached uptrend	oil and gas
Beadell Resources	BDR	breached downtrend	gold
Berkeley Resources	BKY	at highs again	uranium
Blackham Resources	BLK	strongly higher	gold
Bligh Resources	BGH	breached downtrend	gold
Broken Hill Prospect.	BPL	breaching downtrend	minerals sands, cobalt
Buru Energy	BRU	testing downtrend	oil
Canyon Resources	CAY	testing downtrend	bauxite
Cardinal Resources	CDV	rising again	gold exploration
Carnegie Clean Energy	CCE	new high	wave energy
Cassini Resources	CZI	breached downtrend	nickel/Cu expl.
Chalice Gold	CHN	holding uptrend	gold
Crusader Resources	CAS	downtrend	gold/iron ore
Dacian Gold	DCN	breaching steep ST uptrend	gold exploration
Danakali	DNK	strongly higher	potash
Doray Minerals	DRM	down	gold
Duketon Mining	DKM	new low	nickel

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Eden Energy	EDE	higher	carbon nanotubes in concrete
Energia Minerals	EMX	new high	zinc
Equator Resources	EQU	strong rise	cobalt/nickel
Evolution Mining	EVN	testing downtrend	gold
Excelsior Gold	EXG	coming off again	gold
Finders Resources	FND	breached downtrend	copper
First Australian	FAR	sideways to lower	oil/gas
First Graphite	FGR	breached downtrend	graphite
Fortescue Metals	FMG	hugging uptrend	iron ore
Galaxy Resources	GXY	rising again	lithium
Galilee Energy	GLL	breached uptrend	oil and gas, CBM
Gascoyne Resources	GCY	breached downtrend	gold
Geopacific Res. Resources	GPR	breached downtrend	copper/gold exp.
Global Geoscience	GSC	new high	lithium
Gold Road	GOR	downtrend	gold exploration
Graphex Mining	GPX	breached downtrend	graphite
Heron Resources	HRR	new low	zinc
Highfield Resources	HFR	testing uptrend	potash
Highlands Pacific	HIG	edging higher	copper, nickel
Hillgrove Resources	HGO	breached downtrend	copper
Hot Chilli	HCH	testing downtrend	copper
Iluka Resources	ILU	breached steep uptrend	mineral sands
Image Resources	IMA	heavy fall	mineral sands
Independence	IGO	ST down	gold, nickel
Intrepid Mines	IAU	sideways	copper
Karoo Gas	KAR	breached downtrend	gas
Kibaran Resources	KNL	breached support line	graphite
Kin Mining	KIN	breached downtrend	gold
Legend Mining	LEG	strong surge, then a slump	exploration
Lithium Australia	LIT	downtrend breached	lithium
Lucapa Diamond	LOM	testing uptrend	diamonds
Macphersons Res.	MRP	down	silver
Medusa Mining	MML	still in long term downtrend	gold
MetalsX	MLX	breached downtrend	tin, nickel
Metro Mining	MMI	rising	bauxite
Mincor Resources	MCR	off its lows	nickel
Mineral Deposits	MDL	rising again	mineral sands
Mustang Resources	MUS	surge on ruby news	diamonds, rubies
MZI Resources	MZI	still in downtrend	mineral sands
Northern Minerals	NTU	breaching uptrend	REE
Northern Star Res.	NST	breached downtrend	gold
NTM Gold	NTM	breached uptrend	gold
Oceana Gold	OGC	pierced uptrend, then bounced	gold
Oklo Resources	OKU	breached downtrend	gold expl.
Orecorp	ORR	breached downtrend	gold development
Orinoco Gold	OGX	down	gold development
Orocobre	ORE	strongly higher	lithium
Oz Minerals	OZL	another new high	copper
Paladin Energy	PDN	surge out of downtrend	uranium
Pacific American Coal	PAK	breached downtrend	coal, graphene
Pantoro	PNR	new high	gold
Panoramic Res	PAN	rising wedge	nickel
Paringa Resources	PNL	strong recovery	coal
Peel Mining	PEX	gentle uptrend	copper

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Peninsula Energy	PEN		another strong rise	uranium
Perseus Mining	PRU		correcting down	gold
Pilbara Minerals	PLS		breached downtrend	lithium/tantalum
PNX Metals	PNX		strong surge	gold, silver, zinc
Potash West	PWN		falling	potash
Red River Resources	RVR		still in uptrend	zinc
Regis Resources	RRL		breaching resistance line	gold
Resolute Mining	RSG		new short term uptrend	gold
Reward Minerals	RWD		strong rise	potash
RIO	RIO		strongly higher	diversified
RTG Mining	RTG		testing downtrend	copper/gold
Rum Jungle	RUM		sideways	quartz
Salt Lake Potash	SO4		steeply higher	potash
Saracen Minerals	SAR		strong rally	gold
St Barbara	SBM		breached resistance line	gold
Sandfire Resources	SFR		stronger	copper
Santana Minerals	SMI		down	silver
Santos	STO		rising	oil/gas
Sheffield Resources	SFX		rising again	mineral sands
Silver Lake Resources	SLR		rising	gold
Silver Mines	SVL		down	silver
Sino Gas & Energy	SEH		rising	gas
Southern Gold	SAU		pullback	gold
Stanmore Coal	SMR		breached steep uptrend and turning down	coal
Sundance Energy	SEA		new uptrend confirmed	oil/gas
Syrah Resources	SYR		breaching downtrend	graphite
Talga Resources	TLG		rising	graphene
Tanami Gold	TAM		breached uptrend	gold
Tempo Australia	TPP		breached downtrend	mining services
Teranga Gold	TGZ		surge through downtrend	gold
Tiger Realm	TIG		surging higher	coal
Tiger Resources	TGS		uptrend off the lows	copper
TNG Resources	TNG		breached uptrend	titanium, vanadium
Torian Resources	TNR		down	gold expl'n
Toro Energy	TOE		continuing to rise	uranium
Troy Resources	TRY		secondary downtrend	gold
Tyranna Resources	TYX		breaching downtrend	gold exploration
Vimy Resources	VMY		downtrend breached	uranium
West African Resources	WAF		strong breach of downtrend	gold
Westwits	WWI		ST downtrend but rally on Friday	gold exploration/development
Western Areas	WSA		still falling	nickel
White Rock	WRM		breached downtrend	silver
Whitehaven Coal	WHC		rising again	coal
WPG Resources	WPG		testing downtrend	gold
Wolf Minerals	WLF		continuing down	tungsten
Totals	41%	59	Uptrend	
	23%	33	Downtrend	
		143	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.

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- 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	33	23.1%
Copper	13	9.1%
Gold Exploration	13	9.1%
Oil/Gas	9	6.3%
Potash/Phosphate	7	4.9%
Mineral Sands	7	4.9%
Graphite	6	4.2%
Zinc	5	3.5%
Silver	6	4.2%
Lithium	5	3.5%
Nickel	5	3.5%
Uranium	5	3.5%
Coal	10	7.0%
Tin	2	1.4%
Bauxite	3	2.1%
Iron Ore	1	0.7%
Diamonds	2	1.4%
Other	11	
Total	143	

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