

Weekly Charts & Commentary (on Thursday's close)

Thoughts from the Chairman: warwick.grigor@canaccord.com.au

Stock prices weaker, but it is really just a correcting phase

The heat has continued to cool during the week with more mining and energy stocks losing momentum. The consequential succumbing to downtrends – both short and long term – is more a reflection of insufficient reasons to buy than a genuine wish to exit. We are seeing an intra-cycle adjustment as opposed to a bear market.

Chinese Concerns – Growth and Shadow Banking

China hasn't been giving the market much joy recently with most of the commentary relating to a slowing of growth and the depth of the shadow-banking sector with its possible implications.

As far as growth is concerned, I heard a statement this week which resonated well. Even at a 7% growth rate China would be growing at a level that is the equivalent to the size of the South Korean economy, each year. Impressive. Real demand for commodities is not the problem at present; it is the expectation amongst traders that things will get worse.

Aussie Coal versus US Coal

We are seeing a growing trend of ASX-listed companies going across to acquire coal assets in the USA (and Canada) at the very time we are seeing coal mines closing in Australia, and when coal prices are very depressed. How can this make sense? Doesn't logic suggest that depressed coal prices should be causing money to flow out of the sector?

If there is one commodity that is in abundant supply throughout the world it is coal. Many countries produce it for domestic consumption, frequently on modest margins. The highest margin business end, being export coal and coking coal in particular, offers better opportunity for profit. The market is still very competitive and in these times in particular, only the low cost countries can justify new developments.

There is an astounding difference in the cost structures between the USA and Australia, and that is why the juniors are heading off to the States to look for opportunities. Discussing these differences with two of these companies this week, we were advised of the following points.

- Capital costs are much lower in the USA due to the availability of infrastructure, usually within 50 km of mine sites. Construction and development costs are generally 70% of what they are in Australia. New mining equipment is generally 75% of what it costs in Australia, and in the USA there is a deep refurbished equipment market that offers even cheaper prices.
- Labour rates are significantly cheaper;
 - A miner in Oklahoma works 40 hours per week and gets paid \$20-25/hr. On-costs are about 10%, and

he works 49-50 weeks p.a.

- In Australia, for a similar job, a miner gets paid \$6-65/hr, he spend only 32 hours at the mine face, and he works 46 weeks p.a. when you consider rostered days off. On-costs are another 50% on top.
- A truck driver in Oklahoma gets paid \$40,000 p.a. driving 40 hours per week, and he works 49-50 weeks p.a.
- A similar driver in Cessnock gets paid \$130-150,000 p.a. He works 46 weeks p.a. and only spends 30 hours per week in the cabin.

We all know that Australia is a high cost country, but what is being done about it? How can we compete with a sophisticated country like the USA in export markets when there is such a cost disadvantage?

The Aussie juniors know what to do – move to the USA. Examples of these are Attila Resources, Pacific American Coal and Paringa Resources, all with commercially interesting opportunities. At the more speculative end we have seen Atrum Coal, CoalMont (unlisted) and Jameson chasing coal exploration plays in British Columbia where infrastructure and development costs are much higher. Nevertheless, the punters have been supportive in the market.

Lucapa Diamond Company – Successful Raising

We have previously mentioned Lucapa (LOM), believing it to be one of the most exciting quality diamond situations seen in decades. It offers a combination of alluvial diamond production and hard rock kimberlite exploration potential, in the highly productive Angolan diamond fields. (*Canaccord released research in March, which is available upon request*).

During the week Canaccord led a successful \$5.5m placement for LOM, placing it in a strong position to step-up operations as the wet season is coming to an end. News from production and exploration will add to market interest, as will news on the status of the licences. If the Company's projects are as good as we believe, we should see very strong share price performance over the coming months.

The differentiating factor about diamond companies is that share price movements are more dependent upon operational performance and the meeting of expectations as opposed to commodity price trends. Diamond stocks can perform even when the rest of the mining sector is depressed.

An important element of the capital raising was the commitment of the Company to undertake a consolidation

of its share structure. The Lucapa share price has been dominated by day-traders for too long. It has been too temping for these traders to buy at 0.6¢ and immediately get into the queue and place a sell order at 0.7¢. Each tick in the price has been too large, percentage wise. With a 30:1 consolidation the adjusted price will be around 21¢.

The number one criticism - that there are too many shares - will soon be irrelevant. A more respectable share price will also be material in attracting better support from international investors. The associated loyalty option will be a sweetener for shareholders who stay on the register.

Sentiment Indicator: 26% (29%) of the stocks are in uptrend and 41% (39%) are in downtrend. The bulls pulled their horns in further during the week as more stocks passed into negative downtrends .

Detailed Chart Comments

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

Stock			Trend Comment (updated comments in bold)	Main Interest
ABM Resources	ABU	Red	Caught in LT downtrend	gold exploration
Alacer Gold	AQG	Green	Heavy correction within broad uptrend	gold – production
Alicanto Minerals	AQI	Green	rising	gold exploration
Alkane Resources	ALK	Red	Pulling back towards downtrend	gold, zirconia
Alliance Resources	AGS	Green	Holding uptrend	uranium
Acacia Resources	AJC	Orange	sideways	coal
African Energy	AFR	Red	down	coal
Alara Resources	AUQ	Green	rising	zinc
Altona Mining	AOH	Orange	sideways	copper
Amex Resources	AXZ	Green	uptrend	iron sands
Anova Metals	AWV	Orange	Breached uptrend	gold
Atlas Iron	AGO	Orange	Testing downtrend	iron ore
Attila Resources	AYA	Red	Down through support line	coal
Atrum Coal	ATU	Green	Sideways near highs	coal
Aura Energy	AEE	Red	New low	uranium
Australian Bauxite	ABZ	Red	Caught in LT downtrend	bauxite
Avenco Resources	AVB	Red	Hitting resistance of ST downtrend	copper
AWE	AWE	Green	rising	oil and gas
Azumah Resources	AZM	Green	correcting	gold
BHP	BHP	Orange	Strongly higher	diversified
Bandanna Energy	BND	Red	Down again	coal
Bannerman Res.	BMN	Green	New uptrend	uranium
Base Resources	BSE	Green	Testing uptrend	mineral sands
BC Iron	BCI	Orange	Testing downtrend	Iron ore
Beach Energy	BPT	Green	Rising again	oil and gas
Beadell Resources	BDR	Red	Breached support I	gold
Berkeley Resources	BKY	Orange	Breached uptrend	uranium
Blackthorn Resources	BTR	Red	New low on zinc downgrade	zinc/copper
Buccaneer Energy	BCC	Red	New low	oil & gas
Buru Energy	BRU	Orange	breached support line	oil
Carnegie Wave	CWE	Orange	sideways	wave energy
Centaurus Metals	CTM	Red	down	iron ore
Chalice Gold	CHN	Green	Rising gently	gold
Chesser Resources	CHZ	Orange	Sideways through downtrend	gold exploration
Cleveland Mining	CDG	Red	down	gold
Cockatoo Coal	COK	Red	Bounce within a downtrend	coal
Condoto Platinum	CPD	Red	New low	PGM, gold
Consolidated Tin	CSD	Red	down	tin
Crosslands Metals	CUX	Red	Slump to new low	rare earths
Crusader Resources	CAS	Orange	Breached downtrend, then pullback	gold exploration
Discovery Metals	DML	Red	New low	copper
Doray Minerals	DRM	Green	Heavy correction	gold
Endeavour Mining	EVR	Orange	sideways	gold
Energy Resources	ERA	Green	Breached downtrend	uranium
Equatorial Resources	EQX	Orange	Wedge forming	iron ore
Evolution Mining	EVN	Orange	Short term correcting	gold
Finders Resources	FND	Red	Breached uptrend	copper

First Australian	FAR	rising	oil/gas
Fortescue Metals	FMG	Breached ST downtrend	iron ore
Gippsland	GIP	New low	tantalum
Gold Road	GOR	Testing uptrend	gold exploration
Gryphon Minerals	GRY	Caught in LT downtrend	gold
Havilah Resources	HAV	wedge forming	copper
Highfield Resources	HFR	Breached downtrend	potash
Highlands Pacific	HIG	Breached downtrend	copper, nickel
Hillgrove Resources	HGO	Slump below resistance line	copper
Hot Chili	HCH	Heavy fall	copper
Iluka Resources	ILU	New uptrend	mineral sands
Independence	IGO	Breached downtrend, consolidating	gold, nickel
Indochine Mining	IDC	meeting long term downtrend line	gold
Jameson Resources	JAL	New low	coal
Karoo Gas	KAR	Another new low	gas
Kasbah Resources	KAS	sideways	tin
KBL Mining	KBL	Still in downtrend	copper/gold/zinc
Kimberley Diamonds	KDL	Testing short term correction	diamonds
Kingsgate	KCN	down	gold
Lachlan Star	LSA	correcting	gold
Laramide Resources	LAM	Testing downtrend	uranium
Lucapa Diamond	LOM	sideways	diamonds
Lynas Corp.	LYC	New low	rare earths
Macphersons Res.	MRP	testing downtrend	silver
Medusa Mining	MML	Breaching uptrend	gold
MetalsX	MLX	New high	tin, gold
Metminco	MNC	down	copper
Middle Island	MDI	Around lows	gold exploration
Mincor Resources	MCR	rising	nickel
Mount Gibson	MGX	Breached ST downtrend	iron ore
Northern Minerals	NTU	downtrend	REE
Northern Star Res.	NST	Sideways through steep uptrend	gold
Norton Gold Fields	NGF	sideways	gold
Oceana Gold	OGC	bouncing	gold
Oklo Resources	OKU	sideways	gold expl.
OM Holdings	OMH	down	manganese
Orbis Gold	OBS	Breached uptrend	gold expl'n
Orinoco Gold	OGX	down	gold expl'n
Orocobre	ORE	Slump out of uptrend	lithium
Orpheus Energy	OEG	breached uptrend	coal
Oz Minerals	OZL	Turned down after hitting resistance line	copper
Paladin Resources	PDN	Breached new uptrend	uranium
Pacifico Minerals	PMY	uptrend	gold exploration
PanAust	PNA	down	copper/gold
Pancontinental Pet.	PCL	New uptrend	oil/gas expl.
Panoramic Resources	PAN	Testing steep uptrend	nickel
Panterra Gold	PGI	down	gold production
Papillon Resources	PIR	Breached uptrend	gold exploration
Paringa Resources	PNL	rising	coal
Peel Mining	PEX	Testing downtrend	copper
Peninsula	PEN	New uptrend	uranium
Perseus Mining	PRU	Sideways through uptrend	gold
Platina Resources	PGM	rising	PGMs, gold
Predictive Discovery	PDI	Back to lows	gold exploration
Red Fork Energy	RFE	New low	gas
Regal Resources	RER	Testing uptrend	copper
Regis Resources	RRL	Strongly higher	gold
Renaissance Min.	RNS	Breached downtrend, steeply higher	gold
Resolute Mining	RSG	Breached uptrend	gold
Rex Minerals	RXM	Back into LT downtrend	copper
RIO	RIO	Uptrend hitting resistance	diversified
Robust Resources	ROL	Back into LT downtrend	zinc/lead
Saracen Minerals	SAR	pullback	gold
St Barbara	SBM	Back into LT downtrend	gold
Sandfire Resources	SFR	Testing downtrend	copper
Santos	STO	Shallow Downtrend	oil/gas
Senex Energy	SXY	down	oil/gas

Silver Lake Resources	SLR	down	gold
Sino Gas & Energy	SEH	ST down	gas
Sirius Resources	SIR	Breached uptrend	nickel expl.
South Boulder	STB	sideways	potash
Sthn Hemisphere	SUH	testing downtrend	copper
Strike Energy	STX	uptrend	gas
Sun Resources	SUR	down	oil/gas
Sunbird Energy	SNY	down	gas/CBM
Sundance Energy	SEA	Gently lower	oil/gas
Talga Resources	TLG	uptrend	graphite
Tap Oil	TAP	down	oil/gas
Tawana Resources	TAW	downtrend	iron ore
Tiger Resources	TGS	Correction within uptrend	copper
Tigers Realm	TIG	Uptrend being tested	coal
Trafford Resources	TRF	down	tin exploration
Triton Minerals	TON	uptrend	graphite
Troy Resources	TRY	Back into downtrend	gold/silver
UraniumSA	USA	Secondary downtrend	uranium
Venture Minerals	VMS	down	tin, iron
Westwits	WWI	Back to lows	gold exploration
Western Areas	WSA	Testing downtrend	nickel
World Titanium Res.	WTR	heavy slump	mineral sands
YTC Resources	YTC	sideways	gold/base metals
Totals	26%	35	Uptrend
	41%	56	Downtrend
		137	Total

Split of Companies Amongst Commodities (approx.)

Gold	31 (23%)
Copper	18 (13%)
Oil/gas	16 (11%)
Gold exploration	12 (9%)
Coal	10 (7%)
Uranium	10 (7%)
Iron ore	7 (5%)
Tin	5 (3.6%)
Nickel	4 (2.9%)
Zinc	2 (1.4%)
Diamonds	2 (1.4%)
Rare earth	2 (1.4%)
Silver	1 (0.7%)
Other	19
Total	137

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.
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	988*	100.0%		

*Total includes stocks that are Under Review

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