



# Emerging Trends Report

*Bridging the Business Intelligence Gap*

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## ***A Unique Opportunity to Participate in a Boots-on-the-Ground Survey of Australian Precious and Specialty Metal Projects***

The Emerging Trends Report's thematic preference for energy, commodity and infrastructure investment is limited to North American and Australian markets, but due primarily to its very remoteness Australia has long been under-represented.

Due to a combination of circumstances outlined in bullet points below, we believe *now* is the ideal time to take a hiatus from North American markets and to explore the long term investment opportunities in Australian resources.

***In early April, 2010, we embarked on what is likely to be a 24-30-month trip circumnavigating Australia by four-wheel drive to evaluate precious and specialty metal projects and to recommend the stocks of listed companies that are well-positioned to supply burgeoning market demand for these crucial metals in the years ahead.***

Whereas large-scale Australian mining projects are well-covered by North American analysts and possessed the funding to ride out the global financial crisis, precious and specialty metal projects lack broad coverage and have suffered disproportionately from the credit crunch. Combined with the freeze in direct foreign investment and the continuing uncertainty attendant to first the Resource Super Profits Tax and now its watered-down successor, the Mineral Resources Rent Tax, the supply of these metals will be adversely affected going forward, which presents an exciting investment opportunity.

***We are now offering three ways for interested parties to participate in our first-hand assessment of the opportunities attendant to what is now regularly referred to as the greatest resource boom in Australian history: sponsorship of our venture, an annual subscription package, or the purchase of individual reports (please refer to page 8 for details.***

### ***Why Australia***

- Australia possesses stunning resource wealth, which at the end of 2008 was being exploited by 26,179 mining and energy projects.
- Although substantial exploitable natural resources, a more business-friendly environment, and a less 'innovative' financial sector will continue to favor Canadian over American equity markets, Canada is nonetheless leveraged to the

US economy and consequently is not as well-positioned *yet* to supply emerging markets as we believe Australia to be.

- Outside of Canada, prior to the introduction and demise of the Resource Super Profits Tax (RSPT) and now the proposed Mineral Resources Rent Tax (MRRT), Australia was arguably the most politically secure country in the world and had a terrific reputation for, and history of, being business-friendly as well as honoring contractual law.
- We have written numerous articles and have been interviewed regularly on the subject of the RSPT and MRRT, *which are archived on our website*, but in a nutshell we do not believe the tax will survive: either it will be defeated in Parliament because the precedent would undermine Australia's sovereign risk rating and deter critical direct foreign investment in resource projects, or it will be struck down by the High Court as unconstitutional in that it represents an attempt by the federal government to usurp State's Rights to tax resources as guaranteed by the Articles of Federation.
- ***As it stands, the precious and specialty metals we are investigating are outside the purview the tax entirely, and we continue to believe that companies domiciled in either country with unhedged mineral and energy reserves offer the best profit and growth opportunities in the years ahead.***
- China is Australia's largest trading partner; further, ***a November 2009 Commonwealth Bank of Australia study estimated that fully 80% of the commodities exported to China are not re-exported as finished goods but are consumed domestically***, suggesting a buffer layer of demand largely independent of the global economy.
- The Chinese government will take whatever steps they deem necessary to keep their command economy operational, and ***Australia is uniquely positioned to supply commodities not only to China but also to India, Indonesia, Korea, and Taiwan, which are experiencing similar if not parallel growth rates.***
- Demand for Australian resources is reflected in the resumption, indeed acceleration, of their 6-year resource old boom:
  - In the 6 months ending in October 2009, 15 major mineral and energy projects with cumulative capital expenditures of \$3.9 billion were completed, and a further 74 projects were at an advanced stage, representing a further expenditure of \$112.5 billion;
  - Roughly 80% of these projects were located either in Western Australia or Queensland and accounted for more than 90% of total expenditures;

- Capital expenditures on mining equipment through October 2009 amounted to \$35.7 billion, a 30% increase over 2007-8 and more than three times the average annual real expenditure since 1980-81;
- 2009 saw record exploration expenditures, albeit primarily in the energy sector attendant to the offshore natural gas industry; and
- **2008 saw natural resource exports surpass those from manufacturing for the first time.**
- Although making strides to improve the situation, Australian capital markets have not fully recovered from the 2008 collapse of Opes Prime, long a source of mining finance especially for junior ventures, and are unlikely to meet the near- to intermediate-term demand going forward:
  - in addition to the aforementioned projects, there were 341 projects planned through 2015 worth an estimated \$280 billion prior to the proposal for a new resource tax; **78% had not been able to arrange financing because Australian capital markets do not appear to be deep enough to fund them—and the situation has clearly deteriorated;**
  - the Australian corporate bond market is too small, at about ½ the size of UK or US markets relative to GDP, to fund the projects;
  - Australian institutional and retirement fund involvement is minimal as they are not inclined to invest in long term mining projects they view as high risk, ironically preferring real estate and emerging markets;
  - the ability of equity markets to bankroll such projects has been constrained by dominant companies, such as Rio Tinto, which were quick to tap shareholders as soon as the global financial crisis began;
  - **further, resource companies constitute the largest cohort in an ongoing rush to access capital markets via reverse listings** (discussed below); and
  - the Chinese have been quicker to respond to this opportunity than North Americans, which in our opinion represents a wasted opportunity.
- However, Australia's trade relations with China are not without difficulties:
  - mining executives in China have been upbraided, harassed and jailed and charges of 'industrial espionage' are becoming routine;
  - Chinese state-sponsored businesses have reneged on signed contracts;

- numerous resource deals have collapsed due to Chinese attempts to renegotiate contracts long after work has begun;
- and Chinese arrogance and high-handedness is broadly resented throughout Australasia.
- This has provoked a backlash by Australian business and government to limit foreign (read Chinese) encroachment in the resource sector:
  - despite the glaring need for foreign direct investment, a number of resource deals involving the Chinese have been blocked by Canberra;
  - there is a move afoot sponsored by BHP Billiton *to limit state-owned company and sovereign fund investment in greenfield and early stage resource projects to 50% --with the pre-condition that half of that foreign ownership must be floated on the Australian stock market within 15 years;*
  - we see this as an opportunity.

### ***Why Precious and Specialty Metal Projects***

- We have received invitations to visit projects Australia-wide, ranging from iron-loading facility expansions in the Pilbara to concentrated solar farms in South Australia, bauxite resource projects in the Kimberley to gold mines in South Australia, port expansion projects in New South Wales to LNG gasification plants in Queensland, uranium projects in the Northern Territories to the Super Pit in Western Australia.
- North American investors, in fact, have access to a tremendous amount of industry research regarding Australian base metal and energy production; ***what is harder to get are reliable first-hand assessments of the remote but arguably more critical precious and specialty metal projects either under development or undergoing expansion that will supply markets going forward.***
- Whether for use in ever more sophisticated information and ‘green’ technologies, alloys with far higher heat and stress tolerances, electric or hybrid vehicles, myriad military applications, consumer electronics and home appliances, or high voltage transmission lines and equipment, ***material performance increasingly relies on specifications that can only be met by the unique characteristics of these precious and specialty metals***—and the combination of rising protectionism and the aforementioned constrained capital markets have slowed the supply response.

- By and large, the higher up the value-added chain a manufacturer is, the more dependent they are on the unique properties of these precious and specialty metals, which means ***an economic recovery and future expansion in the US and OECD is simply not possible without them—and in fact may be predicated on continued, secure access to these metals.***
- ***As emerging markets, notably China, attempt to move up the value-added manufacturing chain, this is increasing competition for these metals, routinely pitting free market ideologies with the new mercantilism being practiced by command economies.***
- Export restrictions in China (rare earth minerals, antimony, tungsten), the March of Marxism in South Africa (Platinum Group Metals, diamonds, gold, chromium), or continuing instability in the Democratic Republic of Congo (cobalt), to highlight but a few examples, are increasingly rendering secure sources of these metals a national priority in developed economies; over the last 8 months, Japan (Dec. 2009), the USA (Feb. 2010) and the EU (June 2010) have awakened to how critical these ‘technology’ metals are to their economic well-being and have introduced initiatives to secure supplies of these metals.
- We have written three (3) reports pertaining to the growing supply imbalance in these precious and specialty metals since 2005 (available upon request) and have been following the trend avidly.
- ***Not including gold, of the 45 precious and specialty metals we have identified in the table on page 11 as experiencing some form of threat to supply, be it from nationalization or mercantilist policy risk, scarcity of supply, lacking substitutes or being subject to supply interruptions, dissipative uses, or byproduct sourcing, at least 38 are mined, or will be mined, primarily in Australia.***

## **Why Now**

- We are cognizant that prevailing market theory contends the scale of the US recovery will be proportionate to the severity of the decline in output during the recession, implying this recovery will surprise to the upside; we are also aware of the historical trend for high yield outperformance such as that witnessed over the last year to presage 3-4 years of positive equity returns.
- A theme we have been developing and commenting on for two years is that the conditions for an American Renaissance in manufacturing in the greater Mississippi Valley and Midwest (tax incentives, under-utilized infrastructure and capacity, an educated work force, and inexpensive energy and bulk transport) have been developing largely unnoticed by Wall Street.

- However, two considerations made us postpone publishing our American Renaissance report and come to Australia to investigate these metals: stretching back to 1986 ***credit has been a leading indicator for employment, and it has not rebounded sufficiently in our estimation to justify the GDP growth priced into North American equities; and an American Renaissance in manufacturing is contingent upon a business-friendly climate***: if pending and proposed legislation and tax increases are enacted, a production-led recovery may well be aborted.
- Consequently, we anticipate uneven range-bound markets in North America through the 2010 mid-term elections, which are shaping up to be a referendum on the Obama administration; ***our instincts are telling us that the potential rewards attendant to conducting a thorough assessment of Australian precious and specialty metal projects during this time far outweigh those we might miss during a hiatus from the North American markets—especially in light of these metals' importance to our economy going forward.***

## Why Us

- In my capacity as the Managing Editor of the Emerging Trends Report, over the last nine years of dividing my time between Alaska and Australia I have developed a broad range of personal and industry contacts. During that time I have received literally dozens of invitations to visit resource projects all over Australia—***if I will but take the time and make the effort to get out to see them, which is no mean feat considering how geographically isolated many of these projects are.*** The goal of this venture, which we spent 18 months putting together, is to visit as many precious and specialty metal projects as possible in one go.
- I have a broad, multi-disciplinary background, industry contacts, and a working knowledge of these metals as well as considerable research, analytical and writing experience pertaining to them. This is amply demonstrated in the nine Emerging Trends Reports we have collected, updated in the aftermath of the global financial crisis, and published in the form of an eBook, ***Credit & Credibility, a complimentary copy of which is available on request.***
- Experience is a must: over the last decade, I have spent 15 months on 3 separate expeditions into the bush of WA into both the Kimberley and the Pilbara.
- Our experience in contract research has taught us the value of face-to-face meetings with senior management for a company's official story and background, their take on their industry, and their perception of their company's place within it; ***we want to see environmental permits, flow sheets detailing real production and operational costs or confirmation of financing to get real production or expansion underway, not just listen to resource pitches.***
- Because so much information is widely available online, ***without exception we have learned more useful information, garnered a better idea of the challenges***

*each project faces, and gathered invaluable intelligence that never makes it into company reports by going out and spending time with the on-site team—with the geologists, construction and production managers.*

- People living and working in the bush assign a certain credibility to anyone with the ‘sand’ to make the trip out to listen to what they have to say about the everyday pragmatics of a project—and if you listen, they have a lot to say.
- Contacts and personal relationships are critical in the tightly knit mining community, affording introductions to other projects’ personnel; everyone knows what everyone else is doing, the more remote the project the more so.
- *The aforementioned increase in companies using reverse listings to speed access to equity markets also means that a first-hand assessment and screening for the ‘locusts’ that seem to come out from under their rocks during every resource boom to take advantage of the prevailing ‘hot plays’ is mandatory.*
- Another consideration is the unusual relationship that has developed between the environmental movement and resource projects in WA and QLD. A number of contacts have related episodes in which the local environmental movement (in at least one case founded specifically for the purpose) has held up resource projects with litigation until being persuaded to conduct lucrative ‘environmental impact statements’ (using ‘credible’ environmentalists they contract for the purpose) while simultaneously negotiating lucrative contracts supplying logistical or material support to the very projects they have essentially held hostage.
- The Emerging Trends Report is based in Anchorage, Alaska but keeps an office, modified Landcruiser, expedition gear, satellite uplink and communication gear (please refer to page 12 for details) in Newcastle, Australia for exactly this purpose, giving us the capability to inspect, photograph, and film remote mine projects as well as the ability to conduct calls or conference calls and to stream digital photos and video on location.
- We believe we are uniquely positioned to do a better, cheaper and more thorough assessment of a wider range of these projects than North American firms can conduct on their own—saving enough money, in fact, to overcome the natural aversion to sharing information with a limited number of co-sponsors.
- *Each project report includes background material on the metal (-s) mined and an overview of current and prospective uses as well as company-specific intelligence produced from visits with both the executive and on-site teams.*
- Although we plan to look at a number of exploration projects in the vicinity of our targeted projects (please refer to our proposed route on page 10), especially in light of the current uncertainty regarding project funding *we want to focus on projects meeting the following criteria:*

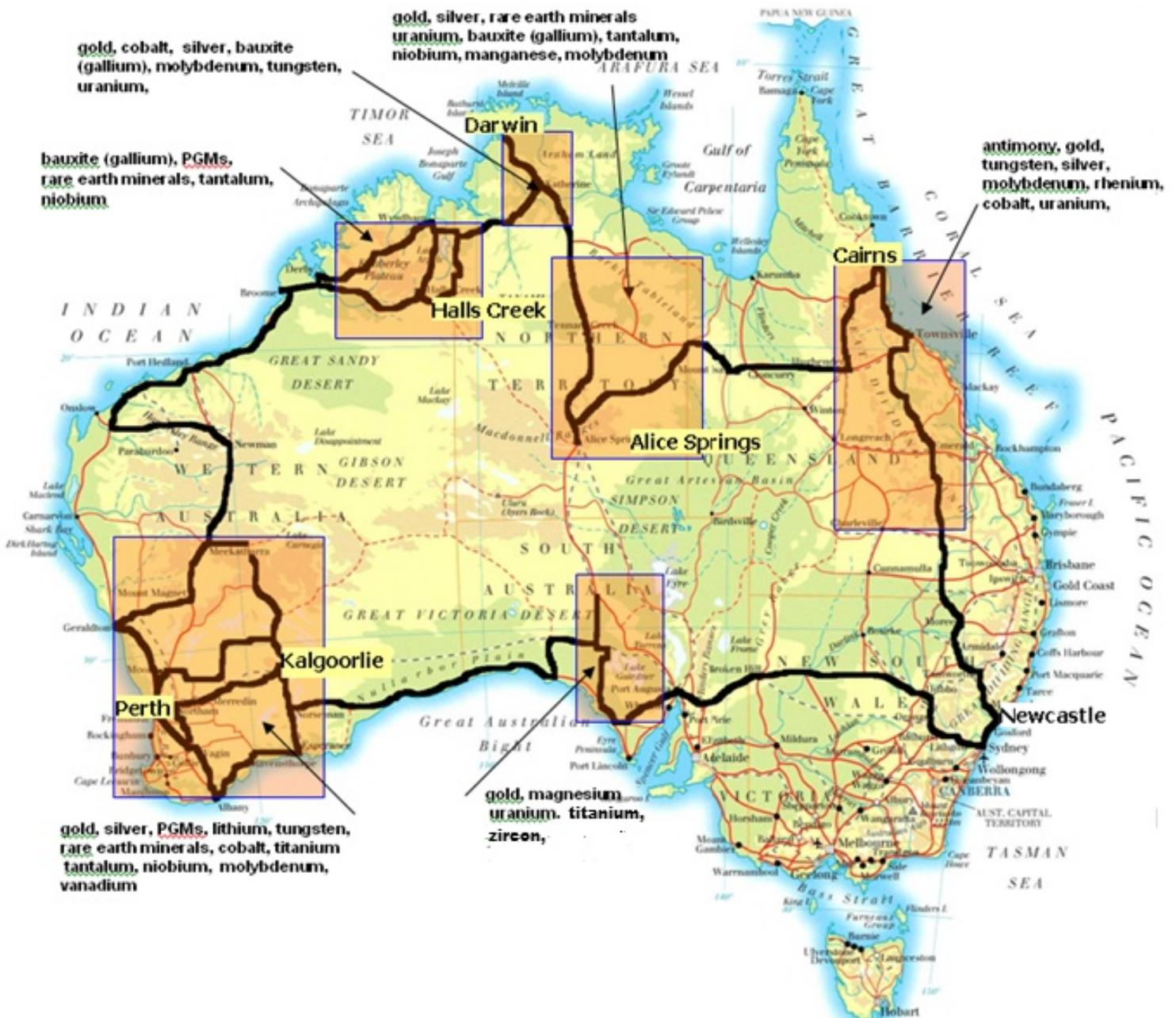
- *experienced, prudent management teams*
  - *significant proven resources*
  - ***fully funded and permitted*** (especially environmental permits)
  - *either under construction, near production, or expanding production from existing operations (especially if being funded from cash flow),*
  - in short, we are looking for long investments, not speculative punts.
- From the hundreds of companies we plan to screen, we expect to issue between 30 and 40 reports on listed companies we recommend our clients buy ***and are buying ourselves.***
  - The majority of these reports will take the form of ***Investment Reports***, which constitute long term ‘buy’ recommendations on companies likely to meet coming demand; we will also, however, be issuing an undetermined number of ***Speculative Briefs***, which are riskier but highly prospective special situations that come to our attention during the course of our trip around Australia.
  - ***To give you an idea of our screening process, to date (July 1, 2010), we have spoken with 41 companies, interviewed 17 executive teams and made 7 site visits; this has produced two (2) Investment Reports, one (1) Speculative Brief (complimentary copies are available on our website), and our next two reports are in the works.***

### ***Three Ways to Participate***

- Investors who agree with our investment thesis may participate in three ways: ***sponsorship, annual subscription, or through the purchase of individual reports.***
- ***Sponsorship*** ranges from ***\$5000 for Individuals*** to ***\$15,000 for Consortiums*** (5 or more individual investors) ***and Institutions***; sponsors receive:
  - ***all of the Investment Reports and Speculative Briefs we produce over the course of the venture;***
  - our report production rate will be erratic due to our screening process, unforeseen events (i.e. the RSPT/MRRT debacle,) travel time, scheduling conflicts, weather-related delays, and the remoteness of many of the projects we are visiting, but ***we are trying to maintain an average production rate of one report per month;***

- sponsors will have each report for a minimum of 3-4 weeks before we distribute the piece to our annual subscribers and then make it available for purchase (see below); this provides sponsors ample time to conduct due diligence and to take positions before a report's general release;
  - we will also issue regular dispatches by email with background 'color' on the Australian resource boom and issues affecting our trip, such as the RSPT/MRRT; this includes progress updates and additional photos that will find their way onto the password-protected section of our website;
  - a complimentary copy of *Credit & Credibility*—our take on the five most important issues facing the US and OECD in the wake of the global financial crisis and how they will affect the ETR's nine long term trends, including our reports on gold, silver and specialty metals (complete, updated copies of all 9 trends are in the eBook); *this information is as timely today as it was with its release in July 2009—perhaps more so in fact due to the way many of our contentions are being borne out*;
  - *Institutional Sponsors may designate three or more specific resource projects for us to investigate and assess on their behalf*—contingent on its proximity to our proposed route (please refer to page 10) and may submit detailed questions regarding areas of interest or concern they would like each company to address;
  - we will ascertain each company's disposition regarding private placements and unbrokered equity offerings; and
  - each Sponsor and Annual Subscriber will receive an advanced complimentary copy of what we intend to be the definitive work on Australian precious and specialty metals we will release 3-6 months after our return.
- *Annual Subscriptions cost \$500 per year for 12-15 reports and briefs and include everything Sponsors receive, 3-4 weeks later, including the secured blogs, map updates and photo archives.*
  - *Or alternately, Investment Reports and Speculative Briefs maybe purchased individually 3-4 weeks after our sponsors have received them for \$60 each.*

***Our Proposed Route is highlighted in BLACK***, departing from Newcastle, NSW and circumnavigating Australia in a clockwise fashion due to weather-related restrictions and road closures in the northern latitudes during ‘the wet’ (December through April-May).



## *Threats to Precious & Specialty Metal Supply\**

<i>METAL</i>	<i>EXAMPLES OF USE</i>	<i>NATURE OF THREAT</i> Key: S= scarcity of supply N = no substitute I = potential supply interruption D = dissipative use B = byproduct source
antimony	flame resistant clothing, drugs, lead acid batteries	S, N, I, D, B
beryllium	infrared, guidance systems, military, nuclear reactor rods, aerospace, fiber optics, HDTV	N
cobalt	batteries, catalysts, super alloys, chemical operations, cutting tools, military	S, N, I
fluorspar	steel production, opalescent glass, enamels, optics	S, I
gallium	integrated circuits, lasers, solar panels, LEDs, optoelectronics, military	S, B
germanium	infrared optics, semiconductors, PET catalyst, fiber optics	S, N, B
graphite	electrodes, dry cell batteries, crucibles, lubricants, nuclear industry, paints, pencils, composites, fuel cells	N, D
hafnium	computer chips, incandescent lighting, alloys for nuclear control rods in power stations,	S, N
indium	coatings, LCDs, semiconductors, alloys & solders	B
lithium	ceramics, glass & aluminum, plastics, batteries, lubricants, pharmaceuticals, military	S, B, I
magnesium	aluminum alloys, steel, die-casting, electronics, medicine, flares,	I,
manganese	steel, cast iron, alloys, fertilizers, military	N, I,
molybdenum	steel, alloys, lubricants, military	S, N,
niobium	steel, alloys, micro-alloys, super-alloys, chemicals, aerospace, military, superconducting magnets, electronics	N, B,
6 platinum group metals (PGMs)	catalysts, autocats, alloys, electronics, military	N, I, B
17 rare earth elements	refining catalysts, magnets, metallurgical, autocats, military	S, N, I, B
rhenium	corrosion-resistant alloys, super-alloys, catalysts, wear-resistant tools, military	S, N, B
scandium	alloys, aerospace, sports equipment, fuel cells	S, B, N, D
silver	electronics, solders, jewelry, photography, military	B, S
tantalum	capacitors, alloys, cell phones, cameras	I
titanium	pigments, aircraft, electronics, military	N, I, B
tungsten	steel, heavy industry, incandescent light filaments, military	N, I
vanadium	carbon steels, alloys, catalysts, chemicals, aerospace, military	N, I
zirconium	refractories, advanced ceramics, catalysts, nuclear fuel rods	S, I

\*Please refer to *Scrap in a Time of Scarcity* (2007) for source material.

Table by: FRPitt/ETR

- Worrisome findings in this table include:
  - 16 of these metals have no substitutes in critical applications;

- 12 are byproducts and are therefore price as well as supply inelastic;
- 12 are of concern regarding the security of supply (sovereign risk),
- 14 are in at least 2 of these 3 categories, suggesting heightened vulnerability, and
- *of these 45 metals, at least 38 are, or soon will be, mined in Australia.*

## ***The Right Gear for the Job***

- ***100 Series Toyota Landcruiser turbo-diesel*** with heavy-duty transmission and the following modifications (photos available upon request):
  - dual fuel tanks
  - lift kit with over-sized springs and shock absorbers
  - locking differentials
  - dual battery system (w/appliance back-up)
  - bullbar and winch
  - snorkel
  - compressor
  - full recovery kit
  - Twine hot water system
  - fridge/freezer and drawer system
- ***Communications Gear:***
  - dish-based, 2-way satellite broadband with UPS, inverter and battery back-up
  - separate back-up satellite phone with marine antenna and UHF radio
  - 2 Kva generator

## ***Conclusion***

- If the global economic recovery is indeed self-sustaining, ***combined developed and emerging market demand for precious and specialty metals will exceed supply***; with our aversion to resource nationalism and the new mercantilism, we believe Australia is the best, safest way to invest in that demand.
- Contrary to prevailing market sentiment, we see limited upside in equity markets over the next 9 months as a fledgling renaissance in American manufacturing could be undermined by proposed and pending legislation, rendering the mid-term elections a referendum on the Obama administration; in the face of such uncertainty, ***we think now is the ideal time to undertake the proposed boots-on-the-ground survey of Australian precious and specialty metals—and we invite you to join us by participating in our venture.***