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About the author:

Victor Goncalves is the editor of the Equities and Economics Report. With training in economics, his expertise is in seeing the true economic trend. This is evident as Victor was one of the first to identify and track the performance of the nanotechnology industry with one of the first nanotech indices. He was also one of the only few economists calling a top on uranium in the summer of 2007. Similarly, his market model has helped him be accurate on the direction of the market nearly 100% of the time. Victor has spoken at many different conferences and on radio programs internationally. He has written commentaries for publications such as Resource World, The Canadian Institute of Mining and Kitco. He has also appeared on television shows such as BNN and others. Victor has traveled to many countries and visited many different exploration/mining projects in many different jurisdictions, with particular interest in the Americas and Europe. Victor has identified many high quality/low valuation situations at very opportune stages over the years, many in the 10's of billions in valuation.





Objective:

The objective of this report is to identify situations that are classified as distressed assets. For the purposes of this report a distressed asset is considered;

“a private or public entity that has a tangible, National Instrument 43-101 mineral asset that are economically viable which may or may not be in good tenure. The owners or management teams, for reasons such as but not exclusive to market turmoil may experience difficulty or no ability to raise the necessary funds to advance the project.”

Rationale:

The rationale in the production of this report is to bring to light that the market has produced an incredible opportunity for those who were able to see the financial situation with the CDO's, ABCP and sub-prime. The selling of assets to cover the margins and otherwise get out of the market has created a situation where the baby has been thrown out with the bath water. Many junior exploration companies whose lifeblood is the capital markets have been put in a coma and are now at absolutely distressed levels, some as low as one cent on the dollar.



Opportunity:

The opportunity lies in...

Establishing a position financially via a financing now at a time when raising capital is next to impossible. Therefore giving these companies the ability to advance significant projects;

Purchasing the companies outright and selling them to the many Asian buyers who are lining up to get the associated metals.

There could be 3 reasons that would potentially create a distressed asset:

- 1) An asset may be too small for most major companies to consider developing or purchasing. That can be as little as 500 million dollars in gross metal value and typically lands in the 1 billion dollar gross metal value range but can be as high as 80 billion dollars in gross metal value. This, however, presents a very profitable situation for an operator/investor. The other potential issue that occurs due to size is that the lack of funding prevents further delineation of a potentially larger deposit.

Management may be sitting on a project that is deemed high quality or even sufficiently developed, but they are acting in an irresponsible fashion and the project remains underdeveloped. This does not inspire confidence in the market, and thus there will be no financing available to the company to advance a project that could be economically viable.



- 2) Poor infrastructure or geopolitical situations are project killers and are generally irresolvable. There are exceptions to that. Geopolitical situations change as more countries realize that economic development is more important than outdated ideals.

This report will focus primarily on the first two which are generally easy to solve. The third factor will come into play but not as often.

Evaluation:

The metrics that will be used are as follows:

Share price vs. gross metal value.

Share price vs. net present value or net asset value.

The current market situation with regards to the metal or metal group that is being developed will be determined using supply and demand fundamentals.

True value of a public company will be determined by the above plus a management metric which evaluates the efficiency of the management and the overall value added, if any.

The final and determining number will be the current market value vs. the net present value.

9 companies will be examined in this report.

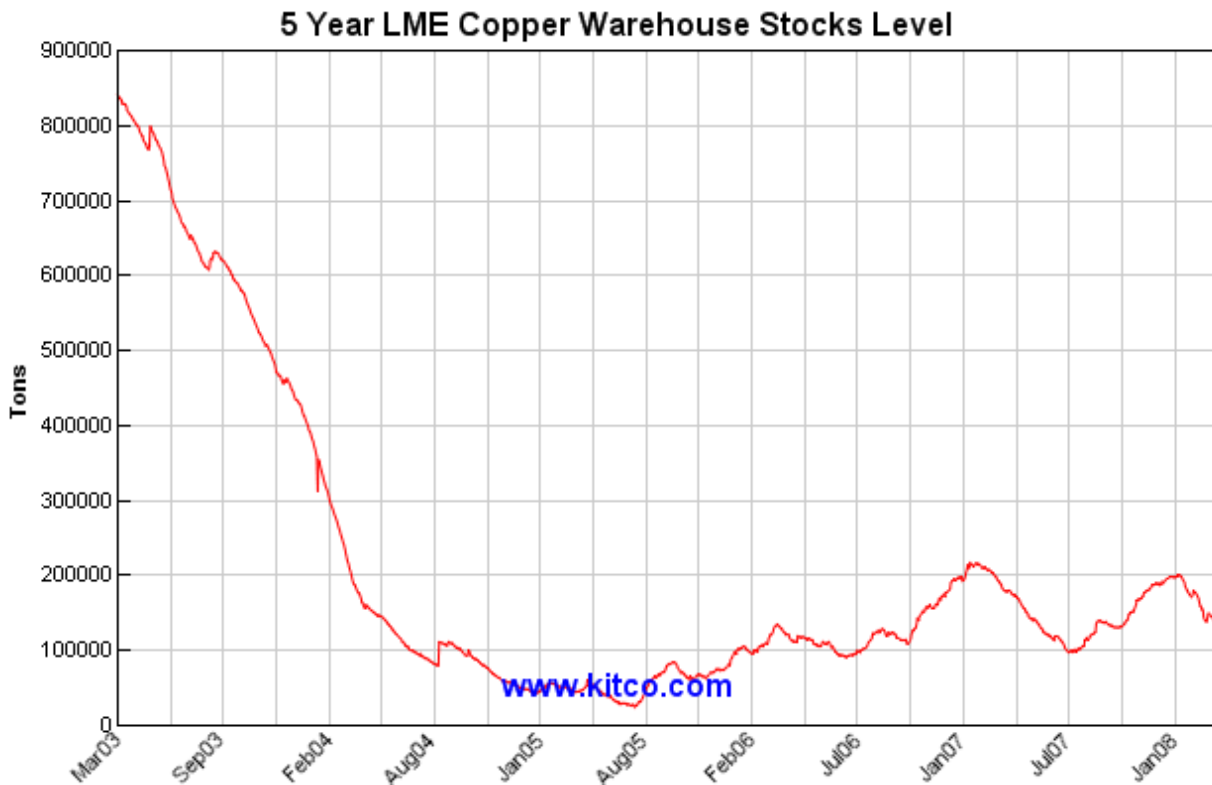


Why the metals market?

Normal business cycles would suggest that this Bull Run is done. It has been about 6 years of steadily increasing metals prices and abundant demand. The demand for these metals really has crept up on the world without too many people fully assessing the ramifications. The fact of the matter is that China and most Asian economies are growing at a rampant rate and are requiring more raw materials than ever and we are at a point in history where not only is it finally apparent, but holds some striking consequences.

China has actually been growing at an average rate of 9.4% annually for at least the past 38 years so to say that this is a new phenomenon would be a little naïve. India hasn't been growing for quite that long, but a similar case can be made. The big question has been why have we come to a metal "shortage" only now?

US demand has been very stable for the past 40-50 years. In the past 5-6 years, the US economy has slowly had its "pillars" eroded. Asian has actually had stronger growth in the 1970s but with a negligible effect. We are at a point where the laws of physics have been kicking in. Whereas 3 decades ago, Chinese growth has been concentrated primarily in the hands of the few rich and the rest receive only a minor piece of the new found prosperity. Today we are in a situation where the growth is primarily in the middle class. That middle class is richer than ever and there are about 300-400 million in this demographic. It is a scenario where more people are growing and the nominal amount is growing exponentially. This has created a very rare opportunity.



What is also true is that even though China is growing at an exponential rate, it is still an economy of just over a trillion dollars versus the US that is an economy of 13 trillion dollars. Over the past couple of years we have seen the foretelling of this credit and housing crisis story through the metals inventory numbers. The 13 trillion dollar economy has been requiring less metals over the past couple of years, even despite China's rampant growth, their economy isn't big enough to absorb the decline in metals demand from the US yet. However, at the average rate of growth China has sustained over the past 38 years, it would only take 10 years for the Chinese economy to double and 30 years for it to surpass the US.



China is going to grow exponentially until they have completed building of infrastructure which is 90% from being complete. In that time, India will be demonstrating similar growth patterns, albeit at a slower rate. Between China and India almost 3 billion people will be rapidly approaching a consumption level that the US has enjoyed for half a century.

This is why we have hit a junction in history that is a privilege to be in, this is the point where smart individuals who saw the credit collapse coming, adapted and got into bullion and cash. Now they have the capability to position themselves for the next major move up in the metals market.

Stock markets have been ravaged by this major liquidation of assets that most financial institutions have been doing. The largest numbers of casualties have been in junior resource sector (after the financials of course). JUNIOR RESOURCE COMPANIES RELY ON VENTURE CAPITAL. Exploration is a risky endeavor because finding a mine is a one in one thousand chance. So when the markets get shaken as we have just witnessed people do not want anything to do with risk; after the banks, anything that requires venture capital has been suffering. Here lies the opportunity that only the very few will notice.



Who will care to capitalize on it?

After 4-5 years of a continuous supply of large amounts of venture capital, many junior exploration companies have had sufficient time to bring old projects on stream or to discover new ones and bring them to a 43-101 compliant resource. The companies that have suffered the most are those that almost brought a project on stream and because the market still views them as speculative they go on sale with the rest of the grass roots exploration companies. The fact of the matter is that there are several world class deposits that are close to the mine development stage (cash generation) and are trading at levels that these companies haven't seen since they were in the early stages of exploration.

There are companies that have 7, 20, even 80 billion dollar assets in the ground that are trading with market capitalizations of 20 to 40 million dollars which is a huge discount. These world class deposits will produce. The world will need a lot more of what these deposits have at an accelerating pace. So this devaluation of these companies with 43-101 compliant resources that have not quite made it to the development stages presents an opportunity for those who realize that this bull run on metals is not going away any time soon. Some of these companies are going to need between 150 million dollars to 1 billion dollars to get into production and they will get the money from someone.



#5 Nanika Resources Inc.

NKA: TSX.V



Recent Price:

10 cents

Shares outstanding:

65 million

Market capitalization:

6.5 million dollars



This is a company that comes to the list and right away looks good. The market capitalization of the company is about 6 million dollars. The project has an indicated resource of 65 million tonnes grading 0.064% Mo. or 92.6 million pounds of contained metal. Inferred resource stands at 10 million tonnes grading 0.054% Mo with a .03% cutoff was used in these calculations. The price of molybdenum has held steady in the 30-40 US dollar for over 5 years now.

The interesting component to this project is that they have signed an option agreement with a Korean consortium to cover capital costs to production. That scenario means that long term metals prices don't matter. Infrastructure in the area is good and there is approximately 50 kilometres of power that needs to be installed. The contained metal value and current Net Present Value would more than warrant the building of infrastructure.

This company has a number of other properties that are at various stages including NI 43-101 stages. Those are properties that I will not expand on for the purposes of this report.

Hindrances: The Company has had trouble in the past with management and the board of directors. The new CEO has not only turned this company around but has also made it quite attractive.



Based on the 5 year price chart this situation presents real upside.

Opportunity: Based on the above I believe that this company is being ignored by the market and may not be able to raise the necessary funds in the public market. That being said, there are very good reasons why this company could be highly advantageous to hold and finance, especially since it has a sizeable deposit that has captured the interest of the South Koreans.