

Today's Notes:

1. Penurious Taxation on the Mining Industry (By Christopher Berry, MBA)
2. LATAM Mining Congress

1. TAXATION ON THE METALS

One of the best indicators to help gauge the state of the global economy is the price of metals. Taxation may be the downside to high metal prices

Rising metal prices are indicative of a growing economy. Many of the metals are used for production of durable lifestyle goods, you know refrigerators, air conditioners and cars. Examine the chart below to note the run up in metals prices between the lows of the 2008 Credit Crisis and Friday's spot prices (ed note: all prices are approximate):

	Credit Crisis Low	Current Spot	% Change
Nickel	\$4.90	\$11.95	143.88%
Copper	\$1.35	\$3.34	147.41%
Platinum	\$763.00	\$1,738.00	127.79%
Palladium	\$168.00	\$547.00	225.60%
Gold	\$712.50	\$1,179.00	65.47%
Silver	\$8.88	\$18.64	109.91%

While an upward trend in metals prices rewards, shareholders, stakeholders and mining company employees, (and the economy indirectly through job creation) the rebound also attracts unwanted attention – attention from government tax collectors.

We've written extensively about gaping long-term fiscal holes in government budgets and the issue of how to plug these holes. With current robust metal prices, it seems it was only a matter of time before mining company profits fall into Government crosshairs.

The FT reports, today, that the Government of Australia is planning on instituting a new 40% tax on the mining sector in the country. This "Resources Super Profits Tax" is designed to plug Australia's fiscal hole as well as "share the wealth." This tax is actually nothing new and harkens back to recent times when oil was trading at \$147/bbl and the US Congress was zeroing in on instituting its own "super" tax. Rightly or wrongly, that never happened, but the Aussies who run world class mining operations don't appear to be quite as lucky. Mining giants BHP Billiton and Rio Tinto both issued statements saying the tax, slated to go into effect in 2012, would hit earnings by roughly 19% and 30% respectively. According to Bloomberg, 58 cents of every dollar of earnings will now be taxed compared to 35 cents before this announcement.

Opponents of the tax say that while the tax will raise A\$9 billion, it will put A\$108 billion of planned investment at risk. Doesn't really seem to be worth it, when you look at it this way, does it? Australian Government officials also plan to **cut** the corporate tax rate by two percent (from 30% to 28%) for non-resource companies, increase mandatory pension payments from 9% to 12%, and create a A\$5.6 billion infrastructure fund for the mining industry. At least regarding the last point, it's not a total loss here for Aussie-based mining companies. All of this is expected to raise Australian GDP by 0.7%. But will it?

The Aussies aren't alone in this government-led money grab. The province of Quebec, recently ranked as the #1 jurisdiction globally for mining exploration and development by The Fraser Institute, has recently announced mining taxation will increase from 12% to 14% to 16% between 2010 and 2012. Additionally, rules surrounding deduction will be changed. We'll see if Quebec is still ranked in the top spot next year at this time. If two of the most mining-friendly locales on Earth are raising taxes, it must be only a matter of time before other destinations follow suit – to the detriment of shareholders and stakeholders alike. The Canadian Province of Alberta raised royalties on oil and gas production when oil was at the top of its market in 2007. Now Edmonton is trying to figure out how to undo the damage. Further south the US House of Representatives has passed a penurious 4% to 8% gross royalty tax on mining which if it becomes law could stop domestic mining in the US.

This uncertainty surrounding mining investment is not good in the long-run for the industry. Nor is it good for the economy. As potential and current mining projects are abandoned the price of metal commodities are sure to rise just when the secular bull market in commodities is beginning to accelerate. Governments everywhere seem intent on picking the pockets of their mining industries first, before they pick yours.

One possible way to preserve returns for an individual could be investing in the commodities directly (gold and silver bullion, for instance) or purchasing currencies of commodity-based economies such as Canada or Australia. In the discovery space the world class nature of the mining projects will become even more important.

Taxes aren't necessarily a bad thing, but excessive taxation can be counterproductive as we all learned from the Laffer Curve. The Laffer Curve has always been controversial, but in effect it shows what the maximum level of taxation should be before government revenue, gained from excessive taxation, falls due to project cancellations from lower profitability and returns. Let us hope that governments around the globe remember this fact and also the pivotal role mining and metals companies play in global economic growth as they institute new revenue-transfer policies. This is particularly true as the emerging world countries lead us out of the recent, deep economic downturn.

This week we travel to Saskatchewan to meet with the Premier (a panel discussion) and discuss the policies of that resource-rich Province of Canada. The event is sponsored by Cambridge House. It will be most interesting to discuss these issues in light of the Australian decision of the past few weeks.

Links to the articles mentioned in this note:

<http://www.businessweek.com/news/2010-05-02/bhp-rio-face-heaviest-burden-in-revamp-of-taxes-update1-.html>

<http://www.ft.com/cms/s/0/ba5cf366-5616-11df-b835-00144feab49a.html>

<http://www.fraserinstitute.org/newsandevents/news/7278.aspx>

2. LATAM: CHAIRMAN'S OPENING REMARKS

I include my opening remarks as Chair of the third LatAm Mining Congress last week in Miami. Government and press representatives from Colombia, Mexico, Brazil, Ecuador, Chile and Peru were in attendance as were numerous Canadian and American mining companies. Barrick, Goldcorp, Xstrata, Votorantim, Farallon, U3O8, Great Panther and Quaterra Resources all participated (as many others did). One issue that became clear in watching country presentations from Brazil, Mexico and China was that the emerging world appetite for metals is growing stronger and that China's appetite for Latin American resource investment is also increasing.

Opening Remarks By Chair: Dr. Michael Berry

Welcome to the Latin American Mining Congress. This is my third year of participating in the conference. This year we have a stellar group of developers and leaders of the extractive industries in their respective countries in Latin America. Countries represented here today include Colombia, Mexico, Brazil, Peru, Canada, the US, and China. Mining companies span the gamut from Barrick and Goldcorp to Xstrata and Minera Hochschild and on to the juniors such as Quaterra Resources and Minera Andes. Mining ministers and their representatives are here from Colombia, Mexico and Brazil.

It will be three days of policy discussion and case studies on the resources and potential successes, current and future, that Latin America offers investors and governments and citizens.

My name is Dr. Michael Berry. Before devoting my energies to policy questions surrounding extractive industries in the west, I have been a professor at the University of Virginia and a successful money manager on Wall Street. Two or three times a week I publish Morning Notes. These Notes provide commentary on resource and other discoveries that can create wealth, and with that, lifestyle improvements around the world. We also focus on the impediments to discovery including peak commodity trends, resource nationalism and social issues that are an ever more important factor in responsible resource development.

We focus about 70% on extractive industries such as mining and oil and gas and 30% on a variety of areas including discovery in medicine, high technology, potable water development, infectious diseases and gene therapy. Morning Notes are complimentary and may be accessed at www.DiscoveryInvesting.com.

Latin America is all about discovery. It is the momentum of discovery in every field of endeavor that propels a region or economy forward. Today we are witnessing the emerging economies of the world racing forward. It is indeed the emerging economies that will be the new engines of

economic growth in the world. That growth will be based upon a nascent and rapidly expanding realization by citizens of the emerging world that there is a better lifestyle – we call it a quality of life – to be lived. Lifestyle improvements require metals such as copper, nickel, zinc and uranium as well as many other commodities. More important they require discovery, the hardest part of the development equation. That is what I focus on.

Most people today talk about the BRICS – Brazil, Russia, India and China as the engines of the new order in the world. But Latin America has a much broader role to play. Think for a moment about the oil, gold and coal resources being discovered in Colombia as that country joins the parade of nations moving forward. Chile, long a stalwart of copper production, is now boasting its lithium legacy to the world. Guyana is just being developed. This country, though small by any standards, has gold and uranium resources being actively developed by Canadian junior companies. It matters not the size of the emerging countries but the positive impact of investments on economic development of these countries. Brazil is well along on its world class iron ore and oil developments. Mexico, our nearest neighbor to the south, has been a silver, gold and copper megalith for centuries. On March 23, President Felipe Calderón inaugurated Goldcorp’s massive Penasquito mine in Zacatecas. This was a \$1.7 billion investment by Mexican, Canadian and American markets. He said,

“I am surprised how often it seems that we Mexicans have gone into debt, instead of attracting investments, out of fear, rejecting anything that isn’t Mexican, hampering ventures and putting up roadblocks, keeping people from coming here and getting excited about investing in Mexico.”

Perhaps this is an important theme for this conference as we discuss issues of increased quality of life and the “new normal” world so named by PIMCO. By the way Penasquito has generated 2,500 direct and 12,500 indirect jobs.

There are serious obstacles to the important work that we must do this week here in Miami. Resource nationalism is on the rise. You can see it almost everywhere in the world today. Niger has recently sided with China to develop her economy and the substantial uranium deposits she has. Russia is tying up Australia’s uranium legacy. Kyrgyzstan has rare earths that may now be up for grabs. China is particularly active in Canada’s oil sands and Quebec’s nickel belts. Examples abound. Many countries, realizing the nature of this secular commodity bull market, are increasing taxes and royalties on extractive industries. Venezuela announced this week that she is considering nationalizing her gold industry.

Meanwhile the United States, under President Obama’s Administration, is shutting down its natural resource extractive industries. Last July the US Interior Secretary removed 1 million acres of the most productive uranium land from exploration and development. The US Congress, at least in the House of Representatives, seems intent upon enacting a mining law with a 4% or 8% gross royalty tax. This would severely disable the extractive industries in the United States. “Beware the tax man,” is becoming a well known global cry to mining communities. Two weeks ago I testified to the US Congress on the most negative impact of these policies as they progress throughout the country.

But every cloud has a silver lining and in the case of Latin America the US position and the ongoing development of resource nationalism presents a golden opportunity. It is our opportunity at this

Mining Congress to discuss many of these, and other, issues and to take advantage of the new opportunities for the benefit of all.

I would now like to introduce our first keynote speaker, Mr. Rob McEwen President and CEO of of US Gold and Minera Andes.

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