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MINE SAFETY INTERACTS WITH “CAPACITY” THROUGHPUT, AND NEW
MINE SAFETY RULES PROBABLY WILL REDUCE GLOBAL MINING
CAPACITY 1% TO 3%

Last week’s Elandsrand mine incident in which 3,200 people were trapped a couple days underground triggered our thought, partly because Elandsrand frightened me when I went underground there in 1995.

From a pure financial stock market standpoint, the subsequent regulatory furor is bullish for all mining stocks because interruption or shutdown of hazardous locations may reduce global mine capacity by 1% to 3%. Across-the-board revaluation of major diversified mines (BHP Billiton, Rio Tinto, CVRD, TeckCominco, Anglo-American or Xstrata) would be a logical reaction to such evolving trends that might slightly tighten global mine supply of many commodities.

We estimate that evolving “mine safety” laws reduce global mine capacities by 1% to 3% for various minerals. Several prominent worldwide incidents, most recently the 3,200 trapped workers saved at Elandsrand in South Africa, highlight the issue. Legitimate cause for action exists in our opinion in South Africa, China, Russia, Kazakhstan and other places.

Most conceivable practical solutions will interrupt or slow production. It is possible that some third world regulatory schemes could prove unnecessarily disruptive.

We classify mine fatalities or accidents into three categories - - (1) large numbers of individually small incidents from a plethora of causes, (2) significant Acts of God and (3) catastrophic negligence.

We call attention to at least four categories of “Acts of God” - - (1) lightning storms that caused the December 2003 Pinnacle mine six month underground fire and maybe the 2006 Sago mine twelve fatality tragedy, (2) heavy rainfall that contributed to FCX’s October 2003 3 mmt pit wall failure that killed eight, (3) seismic events that are leading killers in deep in South African gold mines and may have killed nine recently in Utah and (4) effervescent methane gas bubbling at high flow rates from cracks within coal seams often 5x-10x maximum permissible levels.

Examples of catastrophic negligence include last week's hydraulic pipe fall that severed a power to disable the Elandsrand mine shaft, a locomotive that fell down a South African gold mine shaft almost a decade ago killing nearly one hundred, an incorrectly installed crane cable that caused a molten ladle of steel to fall in a March 1990 U.S. startup incident, a molten steel spill at a Chinese plant last year and innumerable large scale Russian, Kazakh or Chinese underground tragedies.

PRACTICAL REGULATORY TREATMENTS OF "ACTS OF GOD"

#1 We believe any underground coal mine should be evacuated when lightning storms are within ten miles. After all, the Pinnacle and Sago mine disasters both in West Virginia appeared to result from lightning strikes. Such a rule might reduce the underground portion of global coal mine capacity by less than 1% or maybe 24 hours per year.

The September 30, 2007 1 pm New York Jets @ Miami Dolphins NFL game was delayed over 60 minutes due to a thunderstorm. If the almighty television networks, the NFL and the American public accepts a one hour delay to the Sunday football game, why not protect poor coal miners the same way?? The presence of much larger than commonly admitted methane quantities makes coal deposits uniquely hazardous.

Two separate issues, concerning which we have not formulated an opinion, are whether (a) all open pit mines of any sort and (b) underground mines other than coal mines should be evacuated when thunderstorms are a threat. Risks extend to these categories, but the risk of a catastrophic explosion is much more remote in the absence of natural gas seams.

#2 We believe that both surface and underground mines of any sort should be evacuated during unique periods of torrential rainfall such as typhoons, hurricanes or unique high rainfall periods. Such a rule may interrupt all mine operations 1 to 5 days per year. Even Arizona desert copper mines experience unique February or March downpours, though such a practice may prove unnecessary in Chile's Atacama.

#3 Individual mines should be regulated on a case-by-case basis for seismic activity risk, and abandoned where seismic activity too consistent.

This author went underground at the Elandsrand mine in 1995, when the fatality rate was nearly one per week. Elandsrand is a classic Witwatersrand "reef" in which the flat-lying horizontal mineral horizon is 3 to 4 feet thick and miners drag four foot tree trunk-like timbers from place to place to keep the vertical pressures from closing the horizon shut.

Progress has been evident in the roughly 50% decline in the national South African gold mine fatality rate since that era. "Rock bursts" due to minor seismic events are the principal problem there. We wondered in 1995 whether the Elandsrand mine should close in order to cut South African fatalities over 10% in one fell swoop.

This potential rule might have implications to specific deep mine districts such as South African gold or platinum, the Coeur d'Alene silver district or Sudbury nickel district in which “rock bursts” from seismic events of 2 to 6 on the Richter scale are common. It might curtail output in those specific mineral districts by 5% to 10% easily. For example, over a dozen individual mine shafts are active in the Sudbury basin, and the incidence of rock bursts and safety performances can be uniquely measured, compared and contrasted.

Another application of the “seismic risk” evaluation involves mines located at the intersection of major regional fault zones in which the plates ARE ACTIVELY MOVING. This is a tougher application in that many of the largest mineral deposits in the world lie at the intersection of the largest fault trends on a continent or region. Intuitively a mining company may not be wise to be drilling and blasting on the San Andreas fault in California, for example.

#4 Underground coal mines should be more closely scrutinized for methane gas “hot spots” where flows may resemble “steam geysers,” and either mitigate the flows or close.

One family of mitigation measures might involve extremely high volume minewide ventilation systems to dilute and quickly evacuate the explosive gas. Some mine operators might choose to shut rather than make such investments, especially in small mines.

We estimate that a strict enforcement of such a rule might close 5% to 25% of the underground coal mines in the world.

OTHER REGULATORY MEASURES

Underground mining is a uniquely hazardous pursuit of mankind known for over 3,000 years. Maybe our evolution as cave dwellers and unique adaptive features helped suit mankind for it.

Many classes of precautions could be regulated for the unique hazards of underground or surface mining. Who knows, maybe some provincial regulator somewhere in the world will create “an office of pit slope, rock mechanics and pit wall stability,” for example. Maybe some other third world regulatory body, say South Africa, creates an office of “mine hoist and shaft supervision.”

It is inevitable that regulatory furor will force more downtime for preventive maintenance and inspection.

It is possible that greater planned downtime benefits mines via fewer unplanned outages. It is always possible that more safety begets “more output” since safety is a wonderful barometer of “good process control” and planning. This was the theory of former Alcoa CEO Paul O’Neill who began every speech with a review of company safety statistics because it was an important barometer of process control as well as a humane issue.

However, the four specific risks from four specific Acts of Nature discussed above can only be addressed with less mine activity, in our opinion.

SPECIFIC ELANDSRAND INCIDENT

From Tessa Kruger @ www.mineweb.com

<http://www.mineweb.com/mineweb/view/mineweb/en/page34?oid=37866&sn=Detail>

(Harmony Gold investor relations manager Amelia) Soares conceded that the pipe which fell down and severed an electric cable in the shaft, effectively bringing hoisting operations in the main man hoisting shaft to a halt, was a compressed air pipe which could have broken off due to fatigue. She said the company spent R1.2bn in capital expenditure this year on maintaining its shafts and R114m on Elandsrand alone. Elandsrand production in the last quarter was 1.649 tonnes of gold.

Harmony is in the process of expanding Elandsrand with a second mine below the first, extending mine working depth from 2,200m to 3.6 km underground. The new mine section contributed half of the annual production and will produce 847,000 tonnes per month of ore when it reaches full production in 2010. When the extended mine reaches full capacity Elandsrand is projected to produce some 3.5 tonnes of gold a quarter.

POTENTIAL SOUTH AFRICAN REGULATORY REACTION

From Tessa Kruger @ www.mineweb.com

<http://www.mineweb.com/mineweb/view/mineweb/en/page67?oid=37921&sn=Detail>

Yesterday's (October 4th) incident at Harmony Gold mine during which 3 200 workers were trapped in its Elandsrand gold mine near Carletonville was not only a "wake-up call" for distressed miner Harmony but also for the South African government that has vowed to tighten mine safety legislation.

Minister of minerals and energy Buyelwa Sonjica said during a media conference today (October 5th) the government would conduct an audit of safety at all mining operations in South Africa and impose minimum safety standards not covered by outcome based safety standards in the country.

A PAST PROPOSAL IN SOUTH AFRICA TO HOLD MANAGERS ACCOUNTABLE

A few years ago there was idle discussion in South Africa of holding mine managers accountable for safety. In effect, criminal negligence prosecution of mine managers after fatalities was discussed.

Though possibly arbitrary, we believe such a "outcome based safety standard" would be a good step.

We believe it would be impossible to recruit a qualified mine manager for those mines naturally inclined to risks, such as seismic-induced "rock bursts." We do not envision "kangaroo courts" throwing mine managers into prison or "lynching" them to the

gallows. Instead, such a harsh rule probably would force mining companies to close the most hazardous mines voluntarily.

In effect, such a rule would encourage greater standards of self-regulation.

CHANGE IN THIS RESEARCH OPERATION

This report reflects research coverage by JTVIR, LLC. In no way shape or form should it be misconstrued as involving Prudential Equities Group (PEG), which shut down on June 6, 2007 as noted. The continuation of that same quarterly or full year earnings estimate for 2007 as JTVIR, LLC should not be construed or mistaken to involve PEG, which shut down on June 6, 2007. Certain data, such as the logic of the earnings model, are similar owing to the same primary author, but this coverage initiation herein involves a different entity and no employment or affiliation with the former Prudential Equity Group, LLC.

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JTVIR is not a broker-dealer, and conducts no trades. Its primary business is to provide “unbundled” metals and paper industry securities and market research to institutions or corporations in a zero commission, electronic execution, electronic dissemination, unbundled format for a specified annual fee structure.

Our investment rating system for securities recommendations is Overweight, Neutral Weight or Underweight. Overweight or Underweight recommendations are estimated to vary from the relative performance of the S&P 500 by more than 10% annually, and the intended time horizon is up to 24 months. Our securities research is intended for institutional investors that might buy up to 10% of a given company, and as such focuses more towards longer-term dynamics impacting the net present value of future cash flows rather than “day trading” sorts of near-term issues.

Except for 32,400 shares of Polymet Mining that John Tumazos bought between April 18 and 23, 2007 (outside counsel advised ownership more than 30 days prior to publishing or contemplating was the definition of a long-term holding and not “front-running”), neither JTVIR, its members or its employees own or have a financial interest in any securities discussed in this report. Our policy is full disclosure.

Our policy permits personal trading in the metals or paper industries, though no positions were taken in companies within regular research coverage after July 2001 after joining Prudential Financial and until after one month of completed New Jersey registration of JTVIR. Our policy is that any personal trading must be consistent with our recommendation, made two business days or more AFTER a recommendation or change in recommendation and held for a minimum of 30 days or one month. We believe it is

virtuous for a securities analyst to “put his or her money where his mouth is” to invest consistent with the recommendation to clients after such recommendation has been made, and we disagree with some restrictions made upon broker-dealer employees after 2000 era scandals.

Our policy permits up to three directorships and up to five consulting projects, advisory assignments or financial advice to corporations that might supplement, backcheck or substitute for certain services of a large investment banking firm. For example, we would accept an engagement to evaluate investment banking advice on behalf of a manufacturing company concerned whether advice is sincere or intended to maximize fees. Currently no such relationships exist.

Our policy is full disclosure of any advisory relationship or conflict going back three years. None currently exist.

Numerous prior investment banking relationships existed prior to three years history to the pre-1997 time frame under the employment of Donaldson, Lufkin and Jenrette or Oppenheimer & Co., Inc. Some of these we can recollect included 14 different gold mine valuations or sales for Barrick Gold, LAC Minerals (later acquired by Barrick), Addington Resources (gold assets in Montana acquired by Canyon Resources), Westworld Industries (Bolivian assets acquired by Battle Mountain Gold later acquired by Newmont Mining), Coeur d’Alene Mines, Crown Resources (acquired by Kinross Gold), Freeport-McMoRan Gold (acquired by Minorco later AngloGold later Queenstake Resources), FMC Gold (later renamed Meridian Gold) and others. Sole managed initial public offerings included Reliance Steel & Aluminum and Huntco. Lead-managed initial public offerings included American Steel & Wire (later acquired by Birmingham Steel) and lead-managed underwritings included Quanex. Co-managed underwritings included the IPO of Century Aluminum and offerings for AK Steel, Kaiser Aluminum, Agnico-Eagle Mines, Cameco and others. Asset sales or purchase advisories, fairness opinion or trusteeships were done for Thymin Steel (sold to Ryerson Tull), Cyclops Corp. (sold to Armco later sold to AK Steel), Allegheny Corp., Bethlehem Steel, the U.S. Dept. of Justice pursuant to the June 1984 merger of LTV and Republic Steel to sell the Gadsden, AL integrated flat-rolled mill, Cobre Copper, and others. Typically more than five investment banking assignments were evaluated, partly executed or “due diligenced” for any completed transaction. Some examples we can recall for which a prospectus was either drafted or partly drafted indicating much work included stock underwritings not completed for Wheeling-Pittsburgh Steel, Steel Dynamics, Atlas Corp., Webco, Sharon Steel, IPSCO, Co-Steel Inc., and others.

ANALYST UNIVERSE COVERAGE:

John C. Tumazos, CFA: Rio Tinto, Louisiana-Pacific, Nucor Corp., Newmont Mining, U.S. Steel, International Paper, BHP Billiton, MeadWestvaco Corp., Antofagasta PLC, Allegheny Technologies, Alcoa Inc., Inco Limited, Bowater, Inc., Temple-Inland, Barrick Gold, Abitibi-Consolidated, Weyerhaeuser Co., Alcan Inc., Smurfit-Stone Container, Plum Creek Timber, Worthington Industries, Goldcorp Inc., AngloGold Ashanti, Freeport McMoRan Copper & Gold, Novelis Inc., FNX Mining.

Dynatec is a company not continued in the research coverage of JTVIR, LLC that was previously included in the prior June 6, 2007 Prudential Equities Group universe owing to a pending takeover by Sherritt International. Alcan, which Rio Tinto soon will acquire, also will be discontinued from coverage.

Subsequently, since September 2007 JTVIR, LLC has initiated coverage of new companies not previously covered in the former universe. These new companies include General Moly, Inc., Duluth Metals, Polymet Mining and Century Aluminum.

In accordance with applicable rules and regulations, we note above parenthetically that our stock ratings of “Overweight,” “Neutral Weight,” and “Underweight” most closely correspond with the more traditional ratings of “Buy,” “Hold,” and “Sell,” respectively; however, please note that their meanings are not the same. (See the definitions above.) We believe that an investor’s decision to buy or sell a security should always take into account, among other things, that the investor’s particular investment objectives and experience, risk tolerance, and financial circumstances. Rather than being based on an expected deviation from a given benchmark (as buy, hold and sell recommendations often are), our stock ratings are determined on a relative basis (see the foregoing definitions).

There is no intention to “balance” the number of Overweight or Underweight ratings, as instances of broad over- or under-performance among basic industrials may occur. JTVIR makes each investment judgment in a “bottoms up” manner based on the assets of each individual company.

Price Target – Methods/Risks

The methods used to determine the price target generally are based on future earning estimates, product performance expectations, cash flow methodology, historical and/or relative valuation multiples. The risks associated with achieving the price target generally include customer spending, industry competition and overall market conditions.

Additional risk factors as they pertain to the analyst's specific investment thesis can be found within the report.

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