SMG Indium Resources Ltd.
Form 10-K
March 23, 2012

UNITED STATES

SECURITIES AND EXCHANGE COMMISSION

Washington, D.C. 20549

FORM 10-K

(Mark one)

x **ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(d) OF THE SECURITIES EXCHANGE ACT OF 1934**
For the year ended December 31, 2011

OR

.. **TRANSITION REPORT PURSUANT TO SECTION 13 OR 15(d) OF THESECURITIES EXCHANGE ACT OF 1934**
For the transition period from _____ to _____

Commission File Number 000-54391

SMG INDIUM RESOURCES LTD.

(Exact name of registrant as specified in its charter)

Delaware	51-0662991

(State or other jurisdiction of incorporation or organization) **(I.R.S. Employer Identification No.)**

100 Park Ave.,
New York, New York, 10017 (212) 984-0635
(Address of principal executive offices, including zip code) (Registrant's telephone number, including are code)

Securities registered pursuant to Section 12(b) of the Act: None

Securities registered pursuant to Section 12(g) of the Act:

Common Stock, par value $.001 per share	Warrants	Units
(Title of Class)	(Title of Class)	(Title of Class)

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes ¨ No x

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes ¨ No x

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirement for the past 90 days. Yes x No ¨

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Website, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§232.405 of this chapter) during the preceding 12 months (or for such shorter period the registrant was required to submit and post such files). Yes x No ¨

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K (§232.405 of this chapter) is not contained herein, and will not be contained, to the best of the registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10K. Yes ¨ No x

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer or a smaller reporting company. See definitions of “large accelerated filer”, “accelerated filer”, and “smaller reporting company” in Rule 12b-2 of the Exchange Act. (Check one):

Large accelerated filer £	Accelerated filer £
Non-accelerated filer £ (Do not check if a smaller reporting company)	Smaller reporting company S

Indicate by check mark whether the registrant is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes ¨ No x

The aggregate market value of the registrant’s common stock held by non-affiliates computed by reference to the price at which the common stock was last sold as of June 30, 2011 was $20,760,048.

The number of shares of the registrant’s common stock outstanding as of March 1, 2012 was 8,832,301.

SMG Indium Resources Ltd.

Annual Report of Form 10-K

For the Year Ended December 31, 2011

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Cautionary Statement Regarding Forward-Looking Statements

Unless otherwise indicated, the terms “SMG Indium,” “SMG,” the “Company,” “we,” “us,” and “our” refer to SMG Indium Resources Ltd. In this Annual Report on Form 10-K, we may make certain forward-looking statements, including statements regarding our plans, strategies, objectives, expectations, intentions and resources that are made pursuant to the safe harbor provisions of the Private Securities Litigation Reform Act of 1995. The Securities and Exchange Commission (“SEC”) encourages companies to disclose forward-looking information so that investors can better understand a company’s future prospects and make informed investment decisions. This Annual Report on Form10-K contains such “forward-looking statements” within the meaning of the Private Securities Litigation Reform Act of 1995. These statements may be made directly in this Annual Report, and they may also be made a part of this Annual Report by reference to other documents filed with the Securities and Exchange Commission, or SEC, which is known as “incorporation by reference”.

The statements contained in this Annual Report on Form 10-K that are not historical fact are forward-looking statements (as such term is defined in the Private Securities Litigation Reform Act of 1995), within the meaning of Section 21E of the Securities Exchange Act of 1934, as amended,, and Section 27A of the Securities Act of 1933, as amended. Forward-looking statements may be identified by the use of forward-looking terminology such as “should,” “could,” “may,” “will,” “expect,” “believe,” “estimate,” “anticipate,” “intends,” “continue,” or similar terms or variations of th or the negative of those terms. All forward-looking statements are management’s present expectations of future events and are subject to a number of risks and uncertainties that could cause actual results to differ materially from those described in the forward-looking statements. These statements appear in a number of places in this Form 10-K and include statements regarding the intent, belief or current expectations of SMG Indium Resources Ltd.
Forward-looking statements are merely our current predictions of future events. Investors are cautioned that any such forward-looking statements are inherently uncertain, are not guaranties of future performance and involve risks and uncertainties. Actual results may differ materially from our predictions. There are a number of factors that could negatively affect our business and the value of our securities, including and not limited to indium price volatility from supply and demand factors, international export quotas that could affect the availability of indium and our ability to purchase indium, lack of any internationally recognized exchanges for indium, limited number of potential suppliers of indium and potential customers who purchase indium, disruption of mining operations, technological obsolescence, substitution of other materials decreasing the demand for indium, regulatory requirements regarding indium, risks associated with international economic and political events, lack of operational liquidity, lack of investment liquidity, factors affecting our Net Market Value (“NMV”), and changes in interest rates. Such factors could materially affect our Company's future operating results and could cause actual events to differ materially from those described in forward-looking statements relating to our Company. Although we have sought to identify the most significant risks to our business, we cannot predict whether, or to what extent, any of such risks may be realized, nor is there any assurance that we have identified all possible issues that we might face.

In light of these assumptions, risks and uncertainties, the results and events discussed in the forward-looking statements contained in this Annual Report or Form 10-K or in any document incorporated by reference might not occur. Stockholders are cautioned not to place undue reliance on the forward-looking statements, which speak only as of the date of this Annual Report or Form 10-K or the date of the document incorporated by reference in this Annual Report or Form 10-K, as applicable. We are not under any obligation, and we expressly disclaim any obligation, to

update or alter any forward-looking statements, whether as a result of new information, future events or otherwise except as may be required by applicable law. All subsequent forward- looking statements attributable to the Company or to any person acting on our behalf are expressly qualified in their entirety by the cautionary statements contained or referred to in this section. We urge readers to carefully review and consider the various disclosures we make in this report and our other reports filed with the SEC that attempt to advise interested parties of the risks, uncertainties and other factors that may affect our business including the risk factors included herein under Item 1A“Risk Factors.”

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PART I

Item 1. ***Business***

Introduction

We are a corporation established pursuant to the laws of Delaware on January 7, 2008. On April 2, 2008, we changed our name from Specialty Metals Group Indium Corp. to SMG Indium Resources Ltd. We operate a single-segment business whose primary business purpose is to purchase and stockpile indium, a specialty metal that is being increasingly used as a raw material in a wide variety of consumer electronics manufacturing applications. Effective with the quarter ended June 30, 2011 we are considered an operating company and are no longer considered a development stage company.

We were formed to purchase and stockpile the metal indium. Our strategy is to achieve long-term appreciation in the value of our indium stockpile, and not to actively speculate with regard to short-term fluctuations in indium prices. We plan to achieve long-term appreciation in the value of our indium stockpile primarily through price appreciation of the physical metal. Although the price of indium has declined substantially from its high in March 2005, it is our belief that the long-term industry prospects for indium are attractive and over time the price of the metal will appreciate. Price appreciation of the metal indium held in our stockpile is critical for us to maintain our NMV and for investors to receive a return on their investment. However, there is no assurance that the price of indium or the value of our securities will increase over time. To our knowledge, this is currently the only investment that allows potential stockholders to participate in the price appreciation of indium other than physical delivery of the metal itself. Our structure provides a simple and efficient mechanism by which a public stockholder may benefit from the appreciation in the price of indium, if any. Our stockholders have the ability to effectively purchase an interest in indium in a manner that does not directly include the risks associated with ownership of companies that explore for, mine and process indium. Our common shares represent an indirect interest in the physical indium we own.

All of the indium we purchase and own is, and will be, insured and physically stored in reputable, adequately capitalized and insured third-party warehouses or storage facilities located in the United States, Canada, the Netherlands and/or the United Kingdom. These third party facilities provide storage and safeguard of our indium inventory, insurance, handle the transfer of our indium inventory in and out of the facility, visual inspections, spot checks, arrange and facilitate independent third-party random assays, confirmation of deliveries to supplier packing lists, and reporting of transfers of inventory to us.

We utilize and expect to continue to utilize facilities that meet our requirements that are either (i) located closest in proximity to our indium suppliers in order to reduce transportation fees or (ii) facilities located closest in proximity to

our corporate headquarters or satellite offices in order to facilitate our ability to inspect our inventory and reduce future corporate expenses associated with travel. We believe there are numerous third-party storage facilities that provide more than adequate services that meet our criteria, which eliminates the need for hiring a custodian. From inception until December 31, 2011, our Manager, Specialty Metals Group Advisors LLC, which is a related party, purchased on our behalf approximately 34.5 metric tons (“mt”) of indium, which is currently stored in an insured, secure facility in New York owned and operated by Brink’s Global Services U.S.A., Inc. (‘‘Brink’s’’), a bonded warehouse. We expect our chief executive officer or our chief operating officer to inspect the facilities. The facilities are visited at least once per year for inspection. We may insure the warehouse contents above and beyond a bonded warehouse to guarantee we will not sustain a loss in the event of an unforeseen catastrophe or we deem the warehouse company’s insurance inadequate.

Our expenses will be required to be satisfied by cash on hand that is not set aside for the purchase of indium. Cash on hand that is not set aside to purchase indium is expected to be sufficient to satisfy our operating expenses for approximately three years. Our annual cash operating expenses, including management fees, are estimated to be approximately $1.4 million. We may subsequently lend or sell some, or all, of our indium stockpile to cover our operating expenses. Alternatively, we may seek to raise additional capital to cover our operating expenses through potentially dilutive equity offerings or debt financing. Our stockpile of indium may decrease over time due to sales of indium necessary to pay our annual operating expenses. Without increases in the price of indium sufficient to compensate for such decreases, our net market value ("NMV") may also decline. Our stockpile of indium may also decrease over time due to sales of indium against purchases of common shares that are priced lower than our NMV per common share. In such instances, our NMV per common share would rise. NMV is a non-GAAP measure-see below under "GAAP verses non-GAAP Disclosure."

All of our indium transactions are negotiated by our Manager, a related party. Our Manager is paid a 2.0% per annum fee based on our NMV as compensation for these services. The NMV shall be determined by (x) multiplying the number of kilograms of our indium holdings by the last spot price for indium published by Metal Bulletin PLC posted on Bloomberg L.P., plus cash and any other assets, less any and all of our outstanding payables, indebtedness and any other liabilities, (y) divided by our total number of outstanding shares of our common stock. Our Manager is entitled to receive the 2.0% management fee regardless of its ability to successfully purchase and stockpile the metal indium. Our officers and directors have limited experience in stockpiling the metal indium, although our chief executive officer has experience purchasing, selling, storing and lending precious metals, base metals, non-exchange traded metals, and illiquid metals. Our Manager:

- first and foremost, purchases and stockpiles indium ingots with a minimum purity level of 99.99% on our behalf;
- negotiates storage arrangements for our indium stockpile in warehouses or third-party facilities located in the United States, Canada, the Netherlands and/or the United Kingdom;
- makes sure the stockpile is fully insured by either the storage facility's insurance policy, a separately purchased insurance policy, or both;
- purchases insurance on standard industry terms to insure the indium which we own during its transportation to and from the storage facility;
- is responsible for conducting limited inspections of the indium delivered to us;
- relies on the good faith of its suppliers to provide indium that meets our requirements. If indium is purchased from a third-party supplier that is not known to be a regular indium industry supplier, our Manager, at its discretion, may hire, at our expense, an independent lab to perform random assay tests to verify the purity of the indium. The Manager uses only reputable assayers recommended by reliable third-party sources;

- may lend and/or sell indium from our stockpile, based on market conditions;

- publishes on our website the spot price of indium, our NMV and the quantity of indium held in inventory on a bi-weekly basis.

Metal Bulletin's bi-weekly indium price quotation is posted on our website, www.smg-indium.com. If for any reason, Metal Bulletin's bi-weekly indium price quotation is not available, other independent indium quotation providers are available including Platt's Metals Week, Metal-Pages Ltd., Asian Metal Ltd. and Metal Prices. Within two business days of any change in inventory held, the quantity of indium will be published on our website.

We are not legally prohibited from pursuing other business strategies pursuant to our certificate of incorporation, as amended, or any other corporate document. If based on market conditions our Manager determines that it may be in our best interest to expand our lending and/or selling activities beyond what is necessary to cover operating expenses or if the Manager determines that we should begin actively speculating on short-term fluctuations in indium prices or pursue strategic transactions with other companies operating in the indium market including the Federal Government, the Manager will be required to obtain the approval of our board of directors to adopt such a strategic change in our business directive. Additionally, we will promptly notify stockholders of any such modifications to our stated business plan. Presently, our operations are limited to purchasing, stockpiling, lending and selling only the metal indium.

Suppliers

We have and intend to stockpile already mined and processed indium ingots with a minimum purity level of 99.99%, known as 4N or four nines grade. Based on common industry knowledge and our established indium industry relationships, we can determine which companies are regular indium industry suppliers. We consider companies granted indium export licenses from the Chinese government as regular indium industry suppliers. We consider companies like Teck Resources Limited., Xstrata Plc, Indium Corporation of America, Umicore Indium Products Co. Ltd., and Aim Specialty Materials as regular industry suppliers because they are all well known within the industry and have well established reputations. We consider metal trading houses listed in our ‘‘Competition’’ section like Traxys North America LLC, Glencore International AG, Wogen PLC, 5N Plus Inc., etc. that have years and in some cases, decades of experience within the industry as regular indium industry suppliers. We use subjective criteria to determine whom we do business with and for competitive reasons we do not disclose specifically which companies we intend to do business. Currently, an established regular indium industry designated supplier list does not exist.

Strategy and Policies

Through December 31, 2011, we purchased approximately 34.5 metric tons of indium. As of March 1, 2012, we have either taken delivery of or contracted to take delivery of approximately an additional 7 metric tons of 99.99% purity indium (at an average price of $525 per kilogram) to fully meet our commitment of utilizing 85% of the net proceeds from our initial public offering (“IPO”) to purchase indium. Our business model is premised on the long-term appreciation in the value of our indium stockpile. In order to facilitate our business plan, our Manager may elect to purchase indium under long-term supply contracts. Information regarding how much and the percentage of the total indium supply is currently under long-term contracts is not known. This may hinder our ability to enter into long-term supply contracts with industry suppliers, purchase and stockpile indium, and fulfill our business plan in a timely manner.

Our ability to complete our business plan could be adversely affected by the substantial competition we face in the marketplace. There are a substantial number of manufacturers that require indium for the production of flat panel displays (“FPDs”), liquid crystal display (“LCDs”), personal digital assistant (“PDAs”), light emitting diodes (“LEDs”) and

copper indium gallium selenide (“CIGS”) thin film photovoltaics. We expect to compete with manufacturers for purchase of the primary indium supply. The fact that many of these companies have more substantial resources than us and have established relationships with indium industry suppliers may prove to be detrimental to our ability to consummate our business plan.

We may face direct competition from market participants in purchasing our stockpile of indium. There are no other companies, known to us, that have a business model solely dedicated to the purchasing and stockpiling of indium. However, we would have to potentially compete with miners, refiners, suppliers, end- users, traders and other market participants in purchasing indium from suppliers. The companies listed in the ‘‘Competition’’ section are a partial list of companies that are well known indium industry participants that either mine, refine, use, and or trade indium. These companies would be considered indirect competition.

We do not expect to purchase indium from the recycling market. After extensive discussions with indium industry participants, we determined that it is not feasible for us to buy directly from the recycling companies. Recycling scrap indium into 3N7 or higher purity metal ingot is extremely complex and time consuming. Typically, end users (i.e. FPD manufacturers) establish contracts directly with the recyclers. Pursuant to such contracts, the end user supplies the recycler with scrap indium and the recycler specially processes, refines, and then returns the purified recaptured indium to the end user. Typically, recyclers do not sell the recycled indium to anyone else other than the end user who supplied the scrap indium. Industry insiders consider the recycling market a ‘‘closed loop.’’ End users and recyclers do not disclose the particulars of their relationships and contracts. This inaccessibility will limit us to the primary indium market. The primary market is smaller than the recycling market and may affect our ability to purchase a sufficient quantity of indium to meet our business plan’s objectives in a timely manner. Furthermore, Chinese export restrictions may serve to further reduce our access to more than 50% of the world’s primary indium production.

The indium market is illiquid and considered small compared to the base metals. There are a limited number of suppliers and purchasers of indium. If new companies are formed to purchase and stockpile indium, and in the event we raise additional capital to purchase more indium, this may adversely affect our ability to procure sufficient quantities of indium on a timely basis or even at all.

Indium Price Trends in 2011

The annual average price of indium increased approximately 23% in 2011. It increased from $567 per kilogram in 2010 to $696 per kilogram in 2011. According to the USGS, the U.S. producer price for indium began the 2011 year at $570 per kilogram, increased to $690 per kilogram in April, and rose further to $785 per kilogram in May; the price remained at that level through early November. The New York dealer price range for indium began the 2011 year at $520 - $570 per kilogram and increased through early June, reaching a high of $800 - $875 per kilogram. The price then decreased to $630 - $670 per kilogram by early November before falling further to $540 - $600 per kilogram by the end of December 2011. The price of indium on March 1, 2012 was $582.50 per kilogram published by Metal Bulletin as posted on Bloomberg L.P.

Accounting for Direct Sales and Lending Transactions

From time to time we may enter into ‘‘direct sales and or ‘‘lending’’ transactions. Under a ‘‘direct sale’’ transaction, we would record as income, or loss, the difference between the proceeds received from the sale of indium and the indium carrying value. We may engage in lending indium from time to time if we need additional capital to cover annual operating expenses. A typical loan contract would be for terms of six months or less, and in almost no circumstance would it exceed a period of one year. As lender, we will negotiate an Unconditional Sale and Purchase Agreement (‘‘USPA’’) with a prospective borrower. As part of the USPA, once all terms are reviewed and approved by our management team, we will physically deliver indium to the borrower.

In indium lending transactions, we would exchange a specified tonnage and purity of indium for cash. Title and the risks and rewards of such indium ownership would pass to the purchaser/counterparty in the lending transaction. We would simultaneously enter into an agreement with such counterparty in which it would unconditionally commit to purchase and the counterparty would unconditionally commit to sell a specified tonnage and purity of indium that would be delivered to us at a fixed price and at a fixed future date in exchange for cash (the USPA). The USPA would also contain terms providing the counterparty with substantial disincentives ("penalty fees") for nonperformance of the return of indium to the Company as a means to assure our future supply of indium. While we believe that this risk would be mitigated by the penalty fee features of the USPA, it is nonetheless a risk associated with a transaction of this type. We anticipate accounting for any USPA transaction on a combined basis (sale and purchase) and will evaluate whether, and in what period, revenue may be recognized based on the specific terms of any arrangements. We will disclose unconditional purchase obligations under these arrangements and, if applicable, accrue net losses on such unconditional purchase obligations.

There is no established market lending rate for indium. The terms of the USPA contracts will stipulate that the indium returned must be of equivalent quantity and purity. An example of a loan to facilitate future purchases of indium would be made to an indium producer, to be repaid by the return of indium of the same quantity and purity along with the possible purchase of additional indium from the producer. In the event of a loan to the producer, in which we have received dollars for the indium lent, there is a risk that the producer will not return the equivalent quantity or quality indium. Failure of the producer to perform is a risk to our business if the price of indium appreciates and we cannot replace the loaned indium at the same or a lower price than we loaned the indium. The ability of the borrower to satisfy the commitment to return the equivalent quantity and purity of indium is a business risk that we face in a lending transaction. However, the penalty fee aspect as detailed in our USPA would somewhat mitigate our overall business risk because the penalty fee would provide funds for us to purchase indium from other sources at less than favorable prices (if applicable). Notwithstanding the foregoing, if the borrower defaults on its obligations under the USPA, there is always the risk that we might not be able to replace the indium lent at favorable prices. In such instances, we may not be able to recoup our losses through litigation and we would assume the loss which could negatively impact our NMV.

Indium Market Overview

About Indium

Indium (symbol In) is a rare, very soft, silvery-white malleable metal with a bright luster. It is number 49 on the Periodic Table of Elements with an atomic weight of 114.81. Indium is chemically similar to aluminum and gallium, but more closely resembles zinc. Indium is a rare element and ranks 61st in abundance in the Earth’s crust at an estimated 240 parts per billion by weight. This makes it about three times more abundant than silver or mercury. Indium occurs predominantly in the zinc-sulfide ore mineral, sphalerite. Indium is produced mainly from residues generated during zinc ore processing but is also found in iron, lead, and copper ores. According to the USGS, the average indium content of zinc deposits from which it is recovered, ranges from less than 1 part per million to 100 parts per million. Its occurrence in nature with other base metal ores is sub-economic for indium recovery. Pure indium in metal form is considered non-toxic by most sources.

Properties and Characteristics of Indium

Indium is very malleable and ductile and can be easily formed into a wide variety of fabrications. Another distinctive characteristic of indium is that it retains its softness at temperatures approaching absolute zero degrees, making it ideal for cryogenic (freezing or very low temperature) and vacuum applications. The properties of indium may be summarized as follows:

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Low melting point alloy: It is useful in the high-end optical industry where lenses can be held with the alloy instead of the lens surfaces during the polishing process to minimize surface distortion.

- **Lead-free and mercury-free solder industries:** It is commonly used by environmentally friendly electronics goods manufacturers and high-energy alkaline dry cell batteries producers in their respective industries. This reduces or eliminates the use of lead and mercury in soldering.

- **Cold Welding:** Oxide-free indium has the ability to cold-weld or attach to itself. Parts coated with indium can be bonded together without the application of heat or chemicals.

- **Reduce gold scavenging:** When soldering to gold or gold-plated surface, solder has a tendency to dissolve gold into the joint. The addition of indium to solder will reduce this tendency.

- **Bond glass, quartz and ceramics:** These materials cannot be bonded with traditional solders. Indium's unique cold-welding properties allow it to produce a bond in a variety of non-metal applications.

- **Transparent Electrical Conductor:** When indium (in the form of indium-tin-oxide) is coated onto various materials such as glass or plastic films, it acts as a transparent electrical conductor and an infrared reflector.

- **Malleable:** Because indium is so soft and pliable (malleable), it can easily fill voids between two surfaces, even at cryogenic (freezing or very low) temperatures.

Indium is an indispensible raw material to the LCD market. Currently, a very small amount of indium is required in the fabrication of the vast majority of flat panel displays produced. This is the primary use of indium today, accounting for 84% of consumption, according to the USGS.

Source: U.S. Geological Survey 2008

Demand for indium, driven by the LCD industry, has grown rapidly in the last decade as flat panel displays have effectively driven the once dominant cathode ray tube (“CRT”) into obsolescence. Indium, in the form of indium-tin-oxide (“ITO”), creates the optically transparent electrodes that drive LCD displays on TVs, computer monitors, laptops, tablets, cell phones and other devices. Beyond a few niche applications, LCDs currently do not function without indium and, there is no practical, large scale, substitute transparent conductive oxide. According to investor presentations made by Corning Incorporated, one of the world's largest LCD glass manufacturers, LCD glass demand has grown from 1.2 billion square feet in 2006 to about 3.2 billion square feet in 2011 and expected to grow to 3.6 billion square feet in 2012.

Source: LCD TV Association LCD Glass Demand Source: Corning Inc. Annual Reports
Indium per Square Foot LCD Glass Source: AIM Specialty Materials

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The cost of the indium contained within an LCD display, relative to the cost of the actual LCD display, is marginal, representing about 1% of the total cost of production. Therefore, industry experts believe that a sharp rise in the price of indium is unlikely to significantly reduce demand for the metal by the LCD industry.

Source: DisplaySearch website: HDTV Status and Outlook

Indium supply is constrained by global smelting capacity capable of indium extraction and production levels, as reported by USGS, has increased over the last two years after decreasing from 2006 through 2009. Indium is a minor by-product of zinc mining (and to a lesser extent, lead and tin) representing a small credit to production. The value of indium mined in 2011 was approximately $446 million, representing 1.6% of the value of the $27 billion zinc market in 2011. Currently, there are no indium mines and zinc producers do not increase zinc production for the purpose of extracting additional quantities of indium.

Source: U.S. Geological Survey, 2010

Although production scrap is reworked in the normal course of operations, it is not currently economical to recycle indium from post-consumer scrap from sources such as used LCD displays.

We believe the indium market may be in a structural deficit and that sales from unreported above ground stocks of the metal could be supplementing annual production to compensate for what otherwise would be a supply gap. Furthermore, we believe, based on information obtained from our industry contacts, that these unreported above ground stocks, primarily in China, may be in the process of being drawn down. New technology driven applications for indium are emerging in LED lights, thin-film solar PVs and high performance semiconductors. In recent government sponsored reports, the U.S. and Europe have each identified indium as a critical metal upon which important industries, including clean energy, are dependent. China, Japan and South Korea also view indium as critical to their industries and are either developing strategic stockpiles, or laying the groundwork to do so.

According to USGS, the total production of primary indium was estimated to be 640 mt in 2011. We calculated, based on the prices Metal Bulletin posted on Bloomberg L.P., that the average price for indium was $696.28 per kilogram in 2011. Based on these figures, we determined that the size of the primary indium market was approximately $446 million in 2011. Industry information with regards to monthly sales volumes and dollar values of indium transactions is not readily available. Indium does not trade on any forwards or futures exchanges and there are no indium forwards or futures contracts.

Applications

Flat Panel Displays, LCDs & LEDs

Indium is an essential raw material for a number of consumer electronics applications. The primary commercial application of indium is in coatings for the ‘FPD industry. Indium is most useful when chemically processed with tin-oxide to form ITO, an optically transparent and electrically conductive material. Sputtering targets are placed in a vacuum and thin layers of ITO are then applied as electrical contacts onto LCD glass; the thin, technically pristine sheets of glass used to produce LCDs on electronic devices like television sets, computers and mobile phones. In addition to its unique combination of transparency and conductivity, ITO is also preferred for use in LCD technology due to its other unique qualities of low melting point, good uniformity (which is suitable for large LCDs), fast etching time and long life span. Production of ITO thin-film coatings accounted for approximately 84.0% of global indium consumption. Of the remaining 16.0% of the global indium market, other end uses include solders and alloys, 8.0%; compounds, 5.0%; electrical components and semiconductors, 2.0%; and research and other, 1.0%.

Currently, the new generation of LED backlit LCD TVs and computer monitors, as well as organic light emitting (‘‘OLED’’) TVs and displays, all use indium. LED is a semiconductor device that emits visible light or infrared radiation when an electric current is passed. The visible emission, often a high-intensity light, is useful in a whole host of applications. Most LED’s, such as blue, green and white LEDs, require indium. LEDs are a rapidly expanding market. An early use of high brightness LEDs (“HB-LEDS”) was in the automotive sector in the form of lights, dashboard lights and in traffic signals. Backlighting for TVs, computers and cell phones currently drive the bulk of LED demand. LED use in general lighting is in the early stages of adoption and is expected to be a very large market. Japanese LED light

bulb sales surpassed incandescent sales in 2011.

Solar Energy Technology

Indium is increasingly being used as a crucial raw material in the solar energy industry. CIGS is a new semiconductor material comprised of copper, indium, gallium, and selenium. Its main use is for high-efficiency photovoltaic cells (CIGS cells), in the form of thin-film photovoltaic. The thin-film photovoltaic has several advantages over traditional solar energy technologies. It is lightweight, can be applied on uneven surfaces and can be rolled up when not in use. CIGS shows great promise in the lab in achieving high conversion efficiencies at low costs. According to the USGS, CIGS solar cells require approximately 50 metric tons of indium to produce 1 gigawatt ("GW") of solar power. We believe that over time, as manufacturing efficiencies are achieved through mass production, consumption of indium per GW of CIGS production will decrease by as much as fifty percent compared to USGS's estimate. Research is underway to develop a low-cost manufacturing process for flexible CIGS solar cells that would yield high production throughput. Flexible CIGS solar cells are already in use in roofing materials, and we believe they could also be used in other building integrated photovoltaics (“BIPVs”) and in various applications in the aerospace, military and recreational industries.

Other Uses

- Indium is also used in the manufacture of low-melting-temperature alloys. An alloy consisting of 24.0% indium and 76.0% gallium is liquid at room temperature.

- Some indium compounds such as indium antimonide, indium phosphide, and indium nitride are semiconductors with useful properties.

- Indium is also used in Laser Diodes (LDs) based on compound semiconductors.

- Ultrapure indium, specifically high purity trimethyl indium, is used in compound semiconductors.

- Indium oxide is used as transparent conductive glass substrate in the making of electroluminescent panels.

- Indium is also used as a light filter in low pressure sodium vapor lamps.

- Indium is suitable for use in control rods for nuclear reactors, typically in an alloy containing 80.0% silver, 15.0% indium, and 5.0% cadmium.

- 111-Indium (isotope) is used in medical imaging to monitor activity of white blood cells.

Other uses accounted for 16% of the global indium market, including solders and alloys, 8.0%; components, 5.0%; electrical components and semiconductors, 2.0%; and research and other 1.0%.

Supply of Indium

According to the USGS, the top five indium producing countries in the world in 2011 were China, Japan, Canada, Republic of Korea and Belgium. China's refinery production of indium was approximately 340 metric tons in 2011. This is approximately 53% of the annual total global refined primary production of 640 mt.

According to the USGS, primary refined production of indium had been relatively flat between 2006 and 2009. Annual worldwide production had ranged between 546 mt to 582 mt per year. Worldwide production actually

decreased from 582 mt in 2006 to 563 mt in 2007 and edged up slightly to 573 mt in 2008. Worldwide production fell to 546 mt in 2009 and increased to 609 mt in 2010. Worldwide annual production further increased to an estimated 640 mt in 2011.

During the past decades, dwindling zinc prices forced some high cost and low-grade underground zinc mines and a few older and less efficient zinc refineries to close. Zinc prices soared in 2005 and 2006 to record high levels. In turn, according to the USGS, world mine production of zinc increased from 10 million mt in 2006 to an estimated 11.6 million mt in 2008. The average London Metals Exchange (LME) price for zinc in July 2004 was approximately US$1,020 per mt. The average LME price for zinc increased to approximately US$3,340 per mt by July 2006. We believe that this increased primary indium production as well. Higher prices for indium also resulted in increased recycling of production scrap. Despite increasing demand for indium, as with most commodities, higher prices generally leads to increases in production, therefore worldwide supply is expected to be adequate to meet demand through increased primary production and recycling. More recently, by early 2009, the price of zinc plummeted from the lofty levels witnessed in 2006 and early 2007. Weak zinc prices resulted in curtailed production of zinc. This is reflected in the 2011 USGS Zinc Report which estimates zinc production fell from 11.6 mt in 2008 to 11.2 mt in 2009. Zinc prices more than doubled from its early 2009 lows and maintained those gains in both 2010 and 2011. Consequently, zinc production increased to 12.0 million mt in 2010 and further increased to an estimated 12.4 million mt in 2011. Similarly, primary indium production fell from 573 mt in 2008 to 546 mt in 2009 before rebounding to 609 mt in 2011 and rising to an estimated 640 mt in 2011.

The recycling of indium has increased in recent years. The indium recycling market is now larger than primary refinery production. Recycling scrap indium into 3N7 or higher purity metal ingot is extremely complex and time consuming. Japan is the primary market for indium recycling, with over 450 metric tons per year (“tpy”) of secondary indium production capacity, according to Roskill. If recycling activity continues to grow and becomes more efficient, this may serve to increase the total worldwide indium supply.

China

According to the USGS, China controls over 50% of the world’s refined indium production. There are a number of major producers in China, but also numerous smaller producers, relying on purchasing the concentrates from the larger base-metal refiners. China produces approximately 340 metric tons of indium per year.

Source: U.S. Geological Survey 2012

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World Refined Indium Production (Metric Tons)

	2006	2007	2008	2009	2010	2011
China	350	320	310	280	340	340
Korea, Republic of	50	50	75	70	70	100
Japan	55	60	65	67	70	70
Canada	50	50	45	40	67	65
Belgium	30	30	30	30	30	30
Russia	16	12	12	4	n/a	n/a
France	10	10	0	0	n/a	n/a
Brazil	n/a	n/a	n/a	n/a	5	5
Peru	6	6	6	25	n/a	n/a
United States	0	0	0	0	0	0
Other Countries	15	25	25	30	27	30
World Total	582	563	568	546	609	640

(1) Table is taken from the U.S. Geological Survey Minerals Commodities Summaries, January 2007 through January 2012.

China is responsible for most of the increased global zinc and indium production in the last two decades. China has now become the world’s largest producer and consumer of metals and minerals. Much of China’s demand for zinc is a result of infrastructure expansion. The massive development of their mining and smelting industry strained the resources of the country and had a detrimental impact on the environment. The Chinese government responded to this adversity with a policy of replacing small, dirty and inefficient plants with large, new and efficient smelters and refineries designed to comprehensively recover by-products that would otherwise be waste. Additionally, Chinese zinc ores are uncommonly high in their indium content. As Chinese zinc output swelled to 40% of global production, the Chinese policy of comprehensive recovery resulted in a surge of indium production that we believe is unlikely to be replicated outside of China.

Source: USGS and Roskill (2003, 2010) Source: USGS

The Chinese government restricts the export of indium with taxes and quotas. In December 2009, China announced it would reduce export taxes on unwrought indium, indium scrap and indium powder from the 10.0% to 15.0% level in 2009 to 5.0% in 2010. In December 2011, The Ministry of Commerce issued a quota allowing China to export 139 mt of indium in the first half of 2012, approximately 1 mt less than the level in 2011. In October 2010, Bloomberg LP reported that the Ministry of Commerce in China announced the full year 2011 export quota for indium would remain unchanged from 2010 levels at 233 mt. No announcement has yet been made about full year 2012 export quotas

We believe that most of China's indium output is exported, with domestic demand currently unable to absorb production. Reuters reported in September 2010 that China's top zinc producer, Zhuzhou Smelter Group Co. Ltd. had agreed to sell 140 mt of indium ingot to leading Chinese metals trader Minmetal, a sister company controlled by the Chinese Government. We believe this material represents a portion of the unreported above ground stocks of indium discussed earlier.

Canada

The USGS estimated that in 2011 Canada produced 65 mt of indium, a slight decrease from the 67 mt produced in 2010. Teck Resources Ltd. is the largest producer of indium in Canada.

United States

The United States does not produce any primary domestic indium and relies on imports from China, Canada, Japan, Russia, and other countries. Very little indium is recycled in the United States. We believe this is because there is no infrastructure for the collection of used indium-containing products.

New Production

"Critical Materials Strategy", a 2010 U.S. Department of Energy report highlighting the availability of metals required for the development of clean energy technologies and identifies approximately 50 mt of new indium production they expect annually by 2015. The countries and respective supplies that are assumed to be coming online by 2015 are (i) Australia (15 mt per year), (ii) South America (15–20 mt per year), (iii) Brazil (15 mt per year) and (iv) Russia (2 mt per year).

Zinc Supply

According to the USGS, total worldwide zinc production was 8.5 million mt in 2003, 9.6 million mt in 2004, 9.8 million mt in 2005, 10.0 million mt in 2006, 10.9 million mt in 2007, 11.6 million mt in 2008, 11.2 million mt in 2009, 12.0 million mt in 2010 and an estimated 12.4 million mt in 2011. Yearly zinc production dwarfs the 2011 estimated total primary refined indium production figures of 640 mt and the USGS's 2008 estimated 850 mt of recycled indium. Total indium production represents less than one hundredth of one percent of total zinc production on an annual basis.

Zinc is a loosely amalgamated industry, with the top 10 producers accounting for only 40% and 44% respectively of mined and smelted zinc, as reported by Zincor at the July 2011 Southern African Metals Conference:

Source: Zincor, 6th Southern African Metals Conference July 2011, Further credit to Brook Hunt, June 2011

Source: Zincor, 6th Southern African Metals Conference July 2011, Further credit to Brook Hunt, June 2011

Demand for Indium

Roskill, in their 2010 publication, "Global Industry Markets and Outlook", stated that, "The use of ITO in LCDs will remain the major market for indium and will continue to drive growth in indium demand. PVs for solar applications are a newer and perhaps faster growing application, but there remain significant questions over growth rates and also the technologies involved." They further report that the table below, "shows some forecasts produced by AIM Specialty Materials in 2010, which give a growth rate for global primary indium demand of over 15%py between 2009 and 2013. Consumption of indium in ITO applications is expected to grow at 17%py, while solar applications for indium could increase at nearly 40%py, albeit from a much smaller base level. Even if solar applications were to be removed from the forecasts due to the uncertainty surrounding them, demand for primary indium would still be forecast to grow at around 13%py." We believe that due to structural changes in the solar industry that current industry-wide forecasts for growth in CIGS may be overly optimistic in both the short and intermediate term.

World: Indium demand, by application, 2009 to 2013 (t)

Application	2009	2010	2011	2012	2013
ITO[1]	395	494	568	654	752
Solar[2]	50	75	95	160	185
Other	260	274	292	312	333
Total	705	843	955	1,126	1,270

Source: Brian O'Neill - AIM Specialty Materials, MMTA conference April 2010

Notes: 1) "Real" ITO demand – spent/scrap ITO targets removed from demand calculation

2) Indium demand for solar applications based on industry forecasts

[As reported in Roskill's publication "Indium: Global Industry Markets and Outlook – 2010"]

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Based on the USGS's primary production figures and Bloomberg's calculation of the average yearly price of indium using the prices reported by Metal Bulletin on Bloomberg, the size of the primary indium market was $479 million in 2006, $385 million in 2007, $314 million in 2008 $217 million in 2009, $345 million in 2010 and an estimated $446 million in 2011. According to the USGS global consumption of primary and secondary indium was estimated to be more than 1,800 mt. This would translate into a total market size of approximately $1.25 billion based on Metal Bulletin's average price of $696 per kilogram for indium in 2011.

The USGS estimates that U.S. indium consumption was 120 mt in 2011, up substantially from the 55 mt consumed in 2000 and the 30 mt in 1990. This supports our belief that many of the traditional applications utilizing indium have a long-term upward trajectory in demand.

Source: U.S. Geological Survey

According to the USGS, indium consumption in Japan (the leading global consumer of indium) was expected to increase by 20% in 2010 from that of 2009. Dowa, a Japanese based recycler of indium, estimated that Japanese indium consumption in 2009 totaled 602 mt, with 525 mt (87%) used for the production of ITO. Primary indium consumption was 240 mt, with 70 mt (29%) from domestic producers, and the balance was imported. Secondary indium consumption was 362 mt. Primary and secondary indium consumption by the Japanese may have declined in 2011 due to the temporary disruptions at LCD and ITO production facilities caused by the March 11, 2011 earthquake and tsunami.

According to a Metal-Pages.com article published on June 17, 2010 titled ''EU Warned of Potential Critical Metal Shortage,'' a taskforce of experts supplied a report to the European Commission on June 17, 2010 warning that there is long-term potential for critical metal shortages. The experts listed 14 raw materials, including indium, as critical to the European Union due to their high relative economic importance and to high relative supply risk. The 14 metals and minerals were singled out of the 41 studied in total as most acutely vulnerable to shortage due to demand in Europe outstripping supply. Based on a study commissioned by the German Federal Ministry of Economics and Technology, referenced in the report, the demand for indium from emerging technologies is expected to grow from 234 mt in 2006 to 1911 mt in 2030. Indium's demand in 2030 could outstrip 2006 supply levels by 3.29 times. A December 2010 report published by the U.S. Department of Energy entitled, "Critical Materials", suggests that over 1500 mt of indium could be consumed annually by 2025 for clean energy technologies alone.

Flat Panel Displays (FPDs)

We believe the demand for indium will grow for the foreseeable future. We believe the markets for flat panel displays are strong, particularly for computer monitors, televisions, lap tops, tablets and smartphones. We expect that overall growth in the LCD industry driven by the increase in average display size and growth in unit sales of LCD displays will continue to generate increased demand for indium.

LCD TV demand has grown approximately 34% annually since 2007. According to the LCD TV Association, LCD TV unit sales grew from 10 million units in 2005 to 105 million units in 2008 and an estimated 210 million units in 2011. A January 18, 2012 Metal-Pages article states that global LCD TV shipments are forecast to grow more slowly at around 10 percent in 2012 to 216-217 million units. The same article stated that most LCD panel makers, including AU Optronics, Chimei Innolux, Sharp and Samsung Electronics will concentrate on the production of new and very large panel sizes in 2012. Larger display panels consume substantially larger quantities of indium. In general, mainstream LCD devices are trending toward larger panel sizes, which require more indium per unit Touch screens also routinely use ITO in the touch subsystem as well as in the LCD front plane, requiring an extra layer of ITO. Apple's iPhones and iPads are examples of capacitive touch screen technology utilizing ITO to offer higher clarity and quality of the display image. NanoMarkets LC, a leading provider of market and technology research and industry analysis services, expects the market for ITO to grow from $3.2 billion in 2009 to $10.9 billion in 2016.

LED Industry

The LED TV market has grown rapidly over the last few years, reaching nearly 60 million units in 2010 and is estimated to have captured a majority of the LCD backlit market in 2011.

Source: Veeco September 2011 Investor Presentation

The LED Lighting markets are also expected to grow rapidly over the next few years. In a KGI research report dated September 16, 2009, titled ‘‘LED Sector — Golden Decade Ahead for LED TV and LED Lighting,’’ analyst Yvonne Lu states ‘‘the growth potential of LED Lighting is huge, as at present LED accounts for only 0.5% of the global lighting market estimated at US$122 billion in 2009.’’ According to Strategies Unlimited, a research firm, and J.P. Morgan's North America Equity Research, overall HB LED revenue growth is expected to exceed 30.0% annually from 2009 to 2013. This rapid growth will be mostly driven by LCD backlighting and the general lighting market segments. Combined, these two applications are estimated to grow at a compound annual growth rate of 83.0% between 2009 and 2013. They project that within five years, the LED market will grow from $4.9 billion in 2009 to $14.9 billion in 2013.

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In September 2009, Bloomberg News reported that at a metals conference in Beijing, Feng Juncong, an analyst at Beijing Antaike Information Development Co., Ltd., the state-backed research group, stated that ‘‘Indium used in LED may exceed 100 mt by 2015.’’ We believe this would represent a very large new demand driver for indium and consume a substantial portion of the world’s primary indium supply, if this projection were to become a reality.

Solar Industry

Indium is increasingly being used as a crucial raw material in the solar energy industry. According to the United States’ National Renewable Energy Laboratory, to produce 20 gigawatts of solar power by the year 2050, the United States will need 400 mt of indium per year for the production of photovoltaic modules and systems alone. Based on the same report, the shortage of either indium or tellurium (another raw material for photovoltaic production) could result in serious bottlenecks to such growth unless such cells were made thinner or substitutes were found. We believe that if mass production issues are mastered by industry participants, CIGS based solar photovoltaic panels could be a large new market for the usage of indium.

The market for solar installations based on CIGS thin-film panels will nearly double in size to $2.35 billion in 2015, as manufacturers signaled a breakout year in 2011 by taking advantage of falling production costs, improving module conversion efficiencies and increasing adoption in commercial rooftops, according to a Lux Research report titled, "Sorting through the Maze of CIGS Technologies: Who Will Cash in on the Breakout Year?".

Solar Frontier, a 100% subsidiary of Showa Shell Sekiyu K.K. completed construction of the world's first GW-scale CIS (Copper-Indium-Selenium) module factory in late 2011. The USGS reported the Showa Shell's 1,000-MW/yr solar manufacturing plant could consume 30 mt of indium per year. CIS panels are similar to CIGS panels, but may be easier and possibly cheaper to make, however, they are not as efficient at turning sunlight into power as CIGS panels. In January 2012, GTM Research, a Greentech Media company that provides market research and strategic consulting, reported that Solar Frontier shipped 577 MW of solar panels in 2011 up from 70 MW in 2010 and 46 MW in 2009.

Another notable entrant into the CIGS space is TSMC Solar, a subsidiary of Taiwan Semiconductor. According to TSMC Solar's web site, "TSMC Solar will serve the global solar market with CIGS thin-film modules manufactured in its own facilities, with production capacity reaching 1 GW in the next 3-5 years. Construction began on the first production facility in September 16, 2010 in Taichung, Taiwan. TSCM Solar plans to invest US$258 million for the first phase of the facility which is scheduled to enter commercial production in Q1 2012 and reach yearly capacity of 100MW (megawatts) in thin-film photovoltaic modules by the end of 2012. A second phase is planned for the 5.2 hectare site, which will expand production to over 700MW."

According to GTM Research, the estimated 2011 production numbers for CIGS manufacturers were as follows:

CIGS Manufacturers	Estimated 2011 Production
• Solar Frontier	577 MW
• Solibro	95 MW
• Mia Sole'	60 MW
• Avancis	25 MW
• Nanosolar	20 MW
• Global Solar	19 MW
• Soltecture	14 MW

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Based on this data and industry information, we believe that CIGS consumed anywhere from 24 mt to 40 mt of indium in 2011. It is possible that if mass production issues are mastered by industry participants, CIGS based solar photovoltaic panels could potentially be a very large new market driving significant new demand for indium.

Government Stockpiling

In December 2008, The State Reserve Bureau of China (‘‘SRB’’) purchased 30 metric tons of indium ingots from Huludao Zinc Industry for a strategic stockpile. Most traders and producers believe that the SRB plans to continue stockpiling additional indium ingot in the future, although the exact tonnage is uncertain.

In 2006, the South Korean government announced plans to launch a stockpile of thirteen rare metals and ferroalloys. Indium was on their list. In May 2009, Platts reported that South Korea’s Public Procurement Service purchased at least 5 metric tons of indium from Korea Zinc.

In June 2009, Metal Bulletin Ltd. reported that the Japanese government plans to purchase 60 metric tons of refined indium from its own domestic companies through a public tender. In May 2009, Platts reported that a Japanese official from the Ministry of Economy, Trade and Industry stated that the Japanese government plans to stockpile indium and gallium for the first time. The Ministry has requested a 200 million Yen ($2 million) supplementary budget for stockpiling, some of which would be used to purchase indium and gallium according to an official in charge of the country’s stockpiling policy. The second supplementary budget, which includes the 200 million Yen stockpiling allowance, is currently before the Parliament. There are no official reports stating whether or not the Japanese government has purchased any indium as of December 31, 2011.

Substitutes and Alternatives to Indium

In a report titled, ‘‘Indium Tin Oxide and Alternative Transparent Conductor Markets,’’ NanoMarkets expects the market for ITO substitutes to grow from $30 million in 2009 to almost $940 million in 2016. Such alternatives include other transparent conductive oxides (TCOs), carbon nanotube-based formulations, other nanomaterials, composites and metals. NanoMarkets alsoexpects the market for ITO to grow from $3.2 billion in 2009 to $10.9 billion in 2016. Based on these figures, ITO substitution is expected to grow from less than 1% of the total market in 2009 to approximately 8% of the total market in 2016. According to the USGS, indium’s recent price volatility and various supply concerns associated with the metal have accelerated the development of ITO substitutes. Antimony tin oxide (ATO) coatings, which are deposited by an ink-jetting process, have been developed as an alternative to ITO coatings in LCDs and have been successfully annealed to LCD glass. A potential drawback to using ATO is the fact that the metal antimony and many of its compounds are toxic. Materials such as carbon nanotubes and graphene have advantages over ITO such as relative lower cost, compatibility with flexible substrates and improved performance in certain applications.

Carbon nanotube coatings, applied by wet-processing techniques, have been developed as an alternative to ITO coatings in flexible displays, solar cells and touch screens. ITO is considered brittle as are some other potential substitutes like aluminum-zinc-oxide. The resistive touch screen market and the flexible display market are most ripe for alternatives to ITO and other brittle TCOs that cannot stand up to repeated poking and flexing. Capacitive technology (used in screens for smartphones like Apple's iPhone), on the other hand, offers high clarity and quality of the display image and since it does not work by poking with a stylus, the capacitive screen can more easily make use of ITO and other brittle TCOs. Graphene is another TCO developed as a substitute for ITO that works well in labs, especially for touch screens and flexible displays. Some labs actually manufacture graphene by growing it on an indium substrate. Poly (3, 4-ethylene dioxythiophene) (PEDOT) has also been developed as a substitute for ITO in flexible displays and organic light-emitting diodes (OLED). PEDOT can be applied in a variety of ways, including spin coating, dip coating and printing techniques. Researchers have recently developed a more adhesive zinc oxide nanopowder to replace ITO in LCDs. Although graphene, carbon nanotubes, PEDOTS and the other TCOs may be viable alternatives, there remain several unknowns. It is not known if manufacturers of special materials can successfully mass produce enough of these specialty materials to supply industry, how well these new materials will perform over the long-term in consumer based products and what the opportunity cost would be to the Flat Panel Display (FPD) Industry to transition from ITO to these other alternatives. The FPD manufacturers have already spent tens of billions of dollars building fabs designed to use ITO. Lastly, the cost per kilogram of some of these alternative materials may also be volatile. As of October 21, 2011, Cheap Tubes Inc. was selling industrial grade purified 90wt% multi walled carbon nanotubes in quantities of 1 to 9 kilograms at $450 per kilogram and in quantities in excess of 100 kilograms at $385 per kilogram. According to the USGS, indium phosphide can be substituted by gallium arsenide in solar cells and in many semiconductor applications. Hafnium can replace indium in nuclear reactor control rod alloys. Potential drawbacks using gallium and hafnium as replacements for indium is the fact that both these metals are also considered expensive, have highly volatile price histories and are both byproduct metals like indium. Gallium is a byproduct of aluminum production and hafnium is a byproduct of zirconium refinement. Total annual production of gallium is smaller than annual primary indium production. According to the USGS, world primary gallium production was estimated at 106 metric tons in 2010 and world primary hafnium production statistics were not available.

Government Regulation

General Description

There are no governmental regulations which will directly impact our intended operation of purchasing and lending indium. We intend to use standard industry commercial terms recognized by industry participants in connection with the storage and shipment of indium. A representative sample of such terms is listed below.

Purity. The recognized industry wide standard purity level is 99.99%.

Price. All purchases and sales of indium are individually negotiated. There is no fixed price ratio between 3N7, 4N or 5N material in the indium industry. Typically, in a regular indium market, balanced supply and demand, the higher the purity of the indium, the more it costs. 4N indium is slightly more expensive than 3N7. 5N is slightly more expensive than 4N. In a declining indium market, the price of 3N7 purity indium is often quoted at an even greater discount to indium with purities of 4N or 5N. In some cases, the prices may be as much as 2.0% to 5.0% lower. Typically, when the price of indium is appreciating, there is often no difference in the price of 3N7 purity indium compared to 4N or 5N purity metal.

Form. Indium Metal, 3N7 grade, Type 1 or Type 2, is received for storage in the form of ingots which have a uniform trapezoidal shape or uniform rectangular shape with square or rounded edges. The top and bottom surfaces are relatively flat and parallel.

Surface Characteristics. Indium is a silvery white metal with a bluish cast. Surfaces of the ingot are clean and free of dirt, grease, oil, cleaning residues, etc.

Dimensions. Nominal ingot dimensions are listed below for the two types of Indium.

	Weight	**Length**	**Width**	**Height**
Type 1	100 tr. oz	8.50 in./	3.25 in./	1.25 in./

	(3.11 kg)	215.9 mm	82.5 mm	31.75 mm
		340/345 mm	85/95 mm	
Type 2	10 kg			45 mm
		(bottom/top)	(bottom/top)	

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Production Lot Size. Each ingot shall be traceable to the refining lot or melt from which it was produced.

Packaging

Ingots. Ingots in a production lot shall be individually wrapped in a new, clean, transparent polyethylene bag which has a minimum thickness of 0.004 inches (4 mm). Both ends of the bag shall be closed by heat sealing.

Boxes. Each box from the supplier shall contain either a maximum of twenty 100 tr. oz. ingots or six 10 kg ingots with a total net weight of approximately 63 kg (2,000 tr. oz.).

Marking

Ingot. Each ingot in a refining lot or melt shall be permanently marked or stamped with identification information.

Boxes. Sufficient aluminum tags shall be affixed to each box and shall be marked with identification information.

Storage

Indium ingots shall be stored indoors, in a vault or vault like area of a warehouse which has been equipped with fire prevention sprinklers. Storage identity shall be maintained by contract and production lot number as indicated on each box and in shipping instructions.

Security

Eight seals shall be affixed through holes bored in the top and bottom corners of the box to maintain the integrity of the box contents. Entry into vault areas for the purpose of shipments, inventory or qualitative maintenance inspections will be documented by use of logs and/or custodial reports.

Competition

Although we believe no other companies have our business model, we may have competition from miners, refiners, suppliers and traders of indium such as Huludao Zinc Industry Co. of China, Liuzhou China Tin Group, Jianxi Copper Co., Zhuzhou Smeltery Group Co., Ltd., Nanjing Foreign Economic & Trade Development Co., Ltd., Nanjing Sanyou Electronic Materials Co., Ltd., Huludao Nonferrous Metals (Group) I/E Co., Ltd., Nanjing Germanium Co., Ltd.,

Xiangten Zhengtan Nonferrous Metals Co., Ltd., Guangxi Intai Technology Co., Ltd., Hunan Jingshi Group, Laibin Debang Industry and Trade Co., Ltd., Shaoguan Huali Industrial Co., Ltd., Tianjin Indium Products Co. Ltd., Zhuzhou Keneng New Materials Co., Ltd., Teck Resources Limited, Xstrata Plc, Indium Corporation of America, Umicore Indium Products, Dowa Electronics Materials Co., Unionmet (Singapore) Limited, Aim Specialty Materials, Glencore International AG, Wogen PLC, RJH Trading Ltd., 5N Plus Inc., Hudson Metals Corporation, and Traxys North America LLC. We may also have competition from end users of indium. It is our belief that the top producers of FPD's are the largest purchasers of indium. Major producers of FPDs listed in alphabetical order, are AU Optronics, Chi Mei Optoelectronics, Chunghwa Picture Tubes, HannStar Display Co., Innolux, LG Phillips LCD, Quanta Display Inc., Samsung Electronics, Sharp Corp., and Sony Corp. These companies are likely competing with us for purchasing indium from industry suppliers.

Employees

We have no full-time employees. Our chief executive officer, president and chief operating officer provide services to us through the Manager. Our chief financial officer is a part-time employee and our administrative assistant is a part-time independent contractor.

Corporate Information

Our annual reports on Form 10-K, quarterly reports on Form 10-Q, current reports on Form 8-K, Forms 3, 4 and 5 filed on behalf of directors and executive officers and any amendments to such reports filed pursuant to Section 13(a) or 15(d) of the Securities Exchange Act of 1934, as amended, or the Exchange Act have been filed with the Securities and Exchange Commission, or SEC. Such reports and other information that we file with the SEC are available on our web site at http://www.smg-indium.com when such reports are available on the SEC website. Copies of this Annual Report on Form 10-K may also be obtained without charge electronically or by paper by contacting Alan Benjamin, SMG Indium Resources Ltd., by calling (212) 984-0635.

The public may also read and copy the materials we file with the SEC at its Public Reference Room at 100 F Street, N.E., Washington, DC 20549. The public may obtain information on the operation of the Public Reference Room by calling the SEC at 1-800-SEC-0330. The SEC also maintains a web site at http://www.sec.gov that contains reports, proxy and information statements and other information regarding companies that file electronically with the SEC. The contents of these websites are not incorporated into this filing.

Item 1A. ***Risk Factors***

Investing in our securities involves a high degree of risk. Before purchasing our units, common stock or warrants, you should carefully consider the following risk factors as well as other information contained in this Report, including our financial statements and the related notes. The risks and uncertainties described below are not the only ones facing us. Additional risks and uncertainties that we are unaware of, or that we currently deem immaterial, also may become important factors that affect us. If any of the following risks occur, our business, financial condition or results of operations could materially and adversely affected. In that case, the trading price of our securities could decline, and you may lose some or all of your investment.

Factors That May Affect Our Business and Results of Operations

We have an unproven business model and it is uncertain whether the purchase, lending or sale of indium will generate sufficient revenues for us to sustain operations.

Our model for conducting business is still new and unproven. Our unrestricted, available for general corporate purposes, cash balance at December 31, 2011 was $3.5 million. Subsequent to December 31, 2011, we raised $7.5 million in a private placement (the "2012 Private Placement") of which we intend to use $6.4 million to purchase and stockpile indium and $1.1 million unrestricted cash for general corporate purposes. We estimate that our unrestricted cash balance at March 1, 2012 will sustain our operations through at least 2014. After such time, our ability to support ongoing annual cash operating expenses may depend upon our ability to either raise capital or our ability to generate revenue streams from purchasing, lending and selling indium. However, it is uncertain whether we will be able to raise additional capital or that the purchase, lending and sale of indium can generate sufficient revenues for us to survive. Accordingly, we are not certain that our business model will be viable.

We address a new market which may not develop as we predict or in a way that will justify our purchase of indium.

There is no public market for the sale of indium. Since indium is primarily a byproduct of zinc mining, the supply does not necessarily vary directly with market price. Currently, increases in primary indium production have been correlated to increases in zinc production. We may not, and our Manager may not, be able to acquire indium, or once acquired, lend or sell indium for a number of years. The pool of potential purchasers and sellers is limited and each transaction may require the negotiation of specific provisions. In addition, the supply of indium is limited. World refinery production of indium was estimated by the U.S. Geological Survey or USGS to have increased from 582 mt in 2006 to 640 mt in 2011. The total size of the primary indium market was approximately $446 million in 2011 based on the USGS's estimated production figure and Metal Bulletin's average price for indium of $696.28 per kilogram in 2011 as posted on Bloomberg L.P. As of March 1, 2012, we took delivery of and contracted to take delivery of a

sufficient quantity of indium to fulfill our commitment to spend 85% of the net proceeds from our IPO to purchase indium. Further, we intend to use approximately $6.4 million of the proceeds from the 2012 Private Placement of our common stock to purchase additional indium. We may experience difficulties purchasing indium in the event that we are a significant buyer. The inability to purchase and sell on a timely basis in sufficient quantities could have a material adverse effect on the share price of our common stock.

Information regarding the indium industry's largest producers and users, including data regarding exclusive long-term purchase or supply agreements, is limited and not readily available. Such inability to access this information places us at a potential competitive disadvantage, which may adversely affect our ability to purchase and stockpile indium.

Indium industry producers and users do not publicly disclose sufficient information to determine with certainty the largest producers and users of indium. In addition, company-specific indium usage is not information that is typically publicly disclosed by industry participants. This makes it difficult for investors to assess indium industry dynamics, our competition, and various other risks we face.

Industry producers, recyclers, secondary fabs, and end users do not reveal industry data quantifying the amount of indium purchased or sold under long-term exclusive supply contracts. As a result, we may not be able to determine if certain suppliers have long-term supply contracts with other parties, which may adversely affect our ability to obtain indium from such supplier. The lack of industry information could hinder our ability to purchase and stockpile indium.

In addition, we are not aware of any additional information, if any, regarding the indium market or the type of market information other industry producers, purchasers, suppliers and other market participants may possess. Our inability to access this information, if any, places us at a potential relative competitive disadvantage to other market participants who may have access to such information. This may adversely affect our ability to purchase and stockpile indium.

Investors may face difficulty accessing the quoted price for indium on a daily basis, which may negatively impact an investor's ability to assess the value of their investment.

Indium's market price is infrequently quoted and investors may have to pay for subscriptions to various data service providers to access such information. Metal Bulletin PLC, as posted on Bloomberg L.P., publishes the spot price of indium on a bi-weekly basis. We post on our website Metal Bulletin's published spot price of indium on a bi-weekly basis as well. Therefore, stockholders will not be able to access an updated spot price on a daily basis. Accordingly, investors in our common stock may not be able to readily access information regarding the current market price for indium prior to making an investment decision.

The lack of a recognized indium commodity exchange may negatively impact an investor's ability to assess the value of their investment.

Indium is not traded on any recognized commodity exchange. As such, direct hedging of the prices for future purchases cannot be undertaken. We do not currently have any long-term supply contracts with indium suppliers, so prices will vary with each transaction and the individual bids and offers received. Prices will vary based on the supply and demand for indium. There are no recognized futures or forwards market for indium. The pool of potential purchasers and sellers of indium is limited and each transaction may require the negotiation of specific provisions. Accordingly, a purchase or sale cycle may take several months to complete. In addition, the supply of indium is limited and we may experience additional difficulties purchasing indium in the event we are a significant buyer. The lack of a standardized indium exchange affects our ability to purchase and sell indium on a timely basis and could have a material adverse effect on the price of our securities.

In late April 2011, Metal-Pages.com, a subscription based metals information service provider, reported that the Kunming Fanya Non-ferrous Metals Exchange opened in China. Metal-Pages.com indicated that the exchange began trading silver and indium in standard lots of 100 grams. Based on indium closing price of $695 per kilogram on March 30, 2011, the Fanya Exchange's standard lot size of 100 grams is the equivalent of $69.50. Our average indium purchase order typically ranges from 500 kilograms to 2000 kilograms. This is approximately 5,000 to 20,000 times larger than the 100 gram standard lot size for indium on the Fanya Exchange. In mid-May 2011, Metal-Pages.com reported that physical delivery has not progressed smoothly on the Fanya Exchange. We have not been able to verify the veracity of these statements or if the Fanya Exchange is indeed a legitimate exchange and there is very little information available with regards to the Kunming Fanya Non-ferrous Metals Exchange. Based on the limited information available, it does not appear that the Fanya Exchange is large enough to satisfy the needs of regular indium industry market participants which may negatively impact an investor’s ability to assess the value of their investment.

We expect to rely on a limited number of potential suppliers and purchasers of indium, which could affect our ability to buy and sell indium in a timely manner and negatively influence market prices.

The indium market is illiquid and considered small compared to the markets for base metals. There are a limited number of suppliers and purchasers of indium. If new companies are formed to purchase and stockpile indium, this would adversely affect our ability to procure sufficient quantities of indium on a timely basis or even at all.

Relying on a limited number of potential suppliers of indium and potential customers who purchase indium could (1) make it difficult to buy and sell indium in a timely manner, (2) negatively influence market prices by potentially having to sell indium to cover our operating expenses, or (3) drive up market prices if we are a large purchaser of indium and there is an indium shortage. As of March 1, 2012, we have purchased an aggregate of 41.5 mt of indium using seven regular indium suppliers at an average price of $625 per kilogram. Except for purchasing from these suppliers, we have had limited discussion with other potential suppliers of indium and no other contracts or negotiations have been entered into with any other suppliers or purchasers of indium, and we cannot be certain that we will be able to purchase inventory in a timely manner or at favorable prices to purchase indium.

One of our principal stockholders controls a substantial interest in us and thus may influence certain actions requiring a stockholder vote.

William C. Martin, a member of our board of directors and, through an entity he controls, a member of our Manger, beneficially owns approximately 45.0% of our capital stock with voting rights through wholly owned entities Raging Capital Fund L.P, Raging Capital Fund Q.P., L.P and his Individual Retirement Account. This percentage ownership does not take into consideration the exercise of any stock options and warrants controlled by William C. Martin either individually or through Raging Capital Management LLC. Mr. Martin is able to influence the outcome of all matters requiring stockholder approval, including the election of directors, amendment of our certificate of incorporation and approval of significant corporate transactions, and he will have significant influence over our management and policies. The interests of Mr. Martin and our stockholders' interests may not always align and taking actions which require stockholder approval, such as selling the company, may be more difficult to accomplish.

The substitution of other materials for indium may decrease demand for indium and adversely affect the price of indium and, thus, our stock price.

Indium has substitutes in many, perhaps most, of its uses. Silicon has largely replaced indium in transistors. Gallium can be used in some applications as a substitute for indium in several alloys. In glass- coating applications, silver-zinc oxides or tin-oxides can be used. Zinc-tin oxides can be used in LCDs'. Other possible substitutes for indium glass coating are transparent carbon nanotubes and graphene. Indium phosphide can be substituted by gallium arsenide in

solar cells and in many semiconductor applications. Hafnium can replace indium alloys in nuclear reactor control rods. The substitutions of such materials for indium may decrease the overall demand for indium, thereby lowering the price of indium and our common stock.

Our operating results are subject to fluctuation in the price of indium, which is subject to macroeconomic conditions that are largely outside of our control.

Our activities almost entirely will involve purchasing and stockpiling the metal indium. Therefore, the principal factors affecting the price of our securities are factors which affect the price of indium and are thus beyond our control. We may engage in lending transactions or sell portions of our indium stockpile if we need additional capital to cover annual operating expenses, so the value of our securities will depend upon, and typically fluctuate with, fluctuations in the price of indium. The market prices of indium are affected by rates of reclaiming and recycling of indium, rates of production of indium from mining, demand from end users of indium and indium-tin-oxide, and may be affected by a variety of unpredictable international economic, monetary and political considerations.

Macroeconomic considerations that may affect the price of indium include expectations of future rates of inflation, the strength of, and confidence in, the U.S. dollar, the currency in which the price of indium is generally quoted, and other currencies, interest rates and global or regional economic events. In addition to changes in production costs, shifts in political and economic conditions affecting indium producing countries may have a direct impact on their sales of indium. The fluctuation of the prices of indium is illustrated by the following table, which sets forth, for the periods indicated, the highs and lows of the spot price for indium:

	Spot Indium Prices[1] 99.99% Purity (U.S.$/KG)								
	2003	2004	2005	2006	2007	2008	2009	2010	2011
High	330	910	1070	1025	750	730	530	650	870
Low	80	305	800	680	510	350	300	480	525

(1) Source: Metal Bulletin PLC from Bloomberg L.P.

The price of indium has declined substantially since it peaked in March 2005. The price for indium has declined 46.7% from its high of $1,070 per kilogram in March 2005 to $570 per kilogram as of December 31, 2011. If we began operations in March 2005, and we purchased our stockpile at peak prices, the value of our stockpile would have decreased by more than 46.7% in approximately seven years.

There are additional supply and demand factors that could influence indium price volatility that could adversely impact our NMV.

Our activities primarily involve purchasing and stockpiling indium. The value of our securities will be highly sensitive to fluctuations in the price of indium. Historically, the fluctuations in these prices have been, and will continue to be, affected by numerous factors beyond our control. Such factors include, among others: demand for products that utilize indium directly or as a key ingredient including FPDs, LCDs, touch screens, LEDs specialty solders, low e-glass, and next generation CIGS thin film photovoltaics. The supply of indium could be impacted by increased or decreased levels of zinc production and increases or decreases in indium recycling and or reclamation. Furthermore, there is the risk of indium substitution in certain applications that could impact supply and demand.

Occupational exposure to indium-tin-oxide (ITO) has been linked to severe respiratory issues and may affect future demand for indium.

Publicly available epidemiological studies confirmed case reports which associated occupational exposure to ITO with the development of severe respiratory problems. Therefore, worker exposure due to ITO's growing use in the

fabrication of LCDs is of particular concern and may potentially lead to manufacturers' substituting ITO with different transparent conductive oxides and thusly reducing demand for indium.

There may be a lack of correlation between indium prices, our NMV and our stock price and the amount the price of indium needs to appreciate for us to achieve breakeven results in our NMV is difficult for potential investors to accurately determine because it is highly dependent upon several variables.

Given the fee structure with our Manager and our operational expenses, the trading price of our common stock as listed on the OTC Bulletin Board, the OTCQB marketplace operated by Pink OTC Markets, Inc., or other quoted exchange, may not correlate with the trading price of indium. Regardless of our ability to purchase indium in a timely manner, we will incur projected yearly operating expenses of approximately $1.4 million. The price of indium would need to appreciate substantially to offset the reduction in our NMV due to the expenses listed above. The percentage increase required cannot be accurately determined at this time. It is highly dependent upon various variable factors including, but not limited to, the exact number of kilograms of indium purchased, the average price paid and the amount of time it takes for us to fully spend 85% of the gross proceeds from the 2012 Private Placement to complete the buildup of our indium stockpile. As a result, there may be a lack of correlation between the trading price of indium, our NMV and our stock price.

There may be a lack of investment liquidity in our shares because we are not a mutual fund, a closed end fund, a trust company, an ETF or an ETN.

We are not a mutual fund, a closed end fund, a trust company, an exchange traded fund ("ETF") or an exchange traded note ("ETN") and our shares are not quoted on a national exchange. Therefore an investment in our common shares is not redeemable, not redeemable for our indium and liquidity may be limited. Furthermore, management currently controls the majority of our common shares, which are subject to lock-up requirements and Rule 144 restrictions, which serves to further reduce the float of common stock and its liquidity.

Our NMV is based on the price of 99.99% purity indium as quoted by Metal Bulletin and posted on Bloomberg L.P. Other information service providers may quote indium prices that differ from Metal Bulletin as posted on Bloomberg L.P., which may affect investors' ability to determine our NMV.

Metal Bulletin quotes the price of 99.99% (known as ''4N'') purity indium in US Dollars per kilogram in Rotterdam warehouse, the universally recognized standard for location and industry-wide pricing for physical metals. Other services may quote the price of indium differently from Metal Bulletin's price as quoted on Bloomberg L.P. for a variety of reasons such as variations in purity levels, location of material and source of origin. This may affect investors' ability to accurately determine our NMV.

99.97% purity indium (3N7) may differ in price from 99.99% purity indium (4N) or even 99.999% purity indium (5N) based on market conditions.

There is no fixed price ratio between 3N7, 4N or 5N material in the indium industry. All purchases and sales of indium are individually negotiated. Typically, in a regular indium market, balanced supply and demand, the higher