Today's Notes:

1. **Rare Earths: Sanity in RUU**
2. **The Alberta Bakken: Primary**

1. SOME CLARITY SURROUNDING THE RARE EARTH HYSTERIA

We've fielded a number of calls and emails recently on the continued rise of rare earth oxide prices and what it means for juniors in the rare earth space. It seems as if you could throw a dart at a list of rare earth names and become a winner. The upward price momentum is relentless across the entire REE sector. A watch list of sixteen names that we track in the REE space is up 112% over the past three months. With China controlling the market and no legitimate REE production expected outside of the country anytime soon, one can see why REE juniors have had such a spectacular run. According to Reuters, there seems to be quite a debate going on now amongst analysts and industry experts as to whether or not the rare earth space is indeed a bubble and even the New York Times has entered the fray with experts offering differing and conflicting viewpoints.

The fact is that the entire rare earth market is small (roughly USD $1.5 billion per year today) and though it is expected to double, with an estimated 150 companies globally involved in rare earth exploration, you can expect that 150 number to decrease – likely sooner rather than later. The market just isn't big enough to support that many companies.

We have no idea what the structure of the REE market will look like in three to five years, but prefer to keep it simple when evaluating any of these REE juniors as potential Discovery Investments. The New York Times article referenced above says that if and when Molycorp and Lynas begin production, they will account for 35% of China's current supply. The devil is always in the details, however, and this is a big "if" and "when." In addition, of course, each rare earth deposit is unique in many respects. It's the heavy rare earths elements that are much sought after. Finally, the rare earth space is really about an entire supply chain not just a mine. Since about 1990 the IP for such a supply chain has migrated to China. It will take time to restore it

The Ten Point Grid for Discovery stocks is a tried and true measure of potential wealth creation and can help in keeping the investment evaluation process clear and simple. However, taking it one step further, we've focused on several criteria specific to REEs:

- **The composition of any REE deposit** - is it predominantly heavy REEs (HREEs)? The one thing people involved in the REE industry can agree on is that HREEs are more valuable than the light REEs (LREEs).
- **Has the company solved the metallurgy?** This is key. As REEs occur together naturally and each deposit is unique, the ability to successfully (economically and environmentally) separate the 17 REEs from each other is an absolute necessity. The Chinese have proven they can do this, but they did it at a

huge cost in degradation of the environment. Who else outside of China can make the same claim?

- **Does the company have a mining license in place?** Good relations with governmental officials where such a deposit is located helps to ensure the licensing and permitting process plays in the company's favor.

These are the reasons we like Stans Energy (RUU: TSXV). CEO Robert Mackay has done a commendable job of demonstrating RUU's value proposition to a wide institutional audience, which has in turn led to institutional buying. We think this is the main reason for the move in the share price recently (see price graph below). In fact, the company is in Hong Kong on institutional visits now ahead of the Roskill Conference later this week.

We first wrote about RUU on July 15 the stock was trading for CDN $0.25. We released a detailed report on the company on September 8. Yesterday the stock closed at CDN $0.92 hitting an intraday high of CDN $1.10. That's a significant return of 272%. While some may fret that the stock has come too far too fast, we note that the underlying reasons for RUU's ascent are still intact and investors are awaking to this fact. We also think these reasons provide a superior competitive advantage over many of the company's competitors. We anticipate a resource estimate before year-end which will justify a more concrete valuation and allay some fears in what is admittedly a frothy market. Stay tuned.

Reuters and The New York Times can add to the debate surrounding the REE space all they care to, but we think that Occam's Razor is particularly helpful when evaluating REE plays - the simplest solution is often the best. In this case, RUU offers clear, yet simple advantages over its peers and despite its incredible run of late should be considered, with your appropriate due diligence, as an Incubator Discovery name for your portfolio.

2. PRIMARY PETROLEUM

It is called this the Alberta Clipper. You know what I'm talking about. They are the strong winds that blow out of the West, bring warmth, melt snow, come every so often in wintertime to places like Calgary, Alberta. They eventually dump their wrath into the heartlands of the Midwest and East in cold winter storms. There is a new one coming. It's called the Alberta Bakken. This isn't about weather, it's about shale oil and there's a lot of it on both sides of the border between Alberta, Canada and its neighboring state, Montana. The news of the energy potential hasn't hit the radar screen yet but when it does it's sure to make an impact. In fact only a few holes have been drilled in the Alberta Bakken shale fairway in Montana. The energy world is waiting for the results.

However, several large oil companies such as Murphy Oil and Rosetta are up there and quietly accumulating land positions on both sides of the border, some in Alberta and some in Montana. Montana is important to us for another reason. We have long written on Revett Minerals and their silver /copper mine at Troy in Northwest Montana. It is instructive to look at the performance of Revett since we first served as advisors to that company last year. The company has been turned around under new management. We are pleased to have been part of that success. We hope our Morning Note readers have fared as well.

There is a relative newcomer in the shale oil game, Primary Petroleum (PIE TSXV). Primary has several significant property positions in Montana. It also has 110,000 acres of property positions in the Alberta Basin Bakken fairway in western Montana where it is in close proximity to some of the much larger shale oil players. It holds 20,000 acres in eastern Montana in the Williston Basin. This is about the Bakken shale. You probably have not heard about the Alberta Bakken and the Alberta basin. Oil companies are trying to keep this

quiet as they acquire land positions in western Montana. The Bakken appears to be high on the list of discovery explorers. Primary Petroleum is focused here in Montana. This is a light oil resource play that is equivalent to the Williston Basin. Some observers think that Primary Petroleum could have more than 100 million barrels of recoverable resource on their land blocks in western Montana. The potential net present value at a 10% discount rate could be three dollars per share if true. As we all know Washington is printing money as fast as it can. This AM I noticed the price of oil had risen to nearly $89 a barrel. This puts all of the North American resource plays, and particularly the shale oil and volatile gas resource plays in better economic perspective. These are all potential Discovery Investments.

I mentioned the Bakken at this time because Primary Petroleum, for quite a long time, has developed interesting land positions. I should also mention the Eagle Ford shale in southern Texas is getting a lot of attention at the present time. Both CNOOC and Sinopec, main players from China, appear to be anteing up about $5 billion to participate in that resource play. The Eagle Ford shale contains oil, volatile gas, and dry gas opportunities. But more on the Eagle Ford in a future Morning Note.

It's been a very long time for investors in Mike Marrandino's Primary Petroleum to see the light of day. We were first introduced to Primary by Tom Dean at Murdoch Capital two years ago. Today, with the Bernanke and the Fed's proclivity for further Quantitative Easing we expect oil particularly to benefit significantly, since it is a wasting asset.

Primary has acquired its oil acreage in western and eastern Montana (oil properties) in eastern Montana. These land positions are likely to be highly prospective because they are adjacent to areas that are attracting a lot of attention from the majors. Immediately adjacent to Primary's properties a number of very large oil companies are drilling. Rosetta is one of them and we are waiting results from Rosetta as I write. The discovery process is always

fraught with risk and this case is no different. However we think there's quite a good chance that Primary will find light sweet oil on its properties and we think it could be highly accretive to shareholders. Of course this play could take months to develop before it receives the attention of the Eagle Ford play in Texas .

Primary Petroleum shares are trading at about $.56 today. This still seems cheap to us. However last September Primary was trading for 4 cents per share so there has been significant appreciation in stock. Primary Petroleum is an incubator company but seems placed appropriately in this new Bakken opportunity. Primary has about 125 million shares outstanding on a fully diluted basis and will require raising more money as it goes forward in order to develop its properties. If nearby companies such as Murphy Oil are able to discover and recover economic shale oil on the adjoining properties, Primary Petroleum's share price should appreciate.