

**Today's Notes:**

**1. Rare Earth Heaven (Christopher Berry, MBA)**

**1. THE RACE FOR RARE EARTHS HEATS UP**

I've written quite a bit recently on precious metals such as gold and silver. I thought today a good opportunity to focus on some metals that are "precious" in other ways. I'm referring to the rare earth metals (REMs), 17 of the most important metals you've never heard.

What has shone a light on these elements isn't that they're rare – they aren't. It's the fact that approximately 95% of rare earth production used to come out of China and there are very few, if any, rare earth deposits ready for production in the U.S. Incidentally China just announced that she will reduce her exports of these metals. While many junior mining stocks involved in rare earth discovery have had a nice run of late (see chart), it is more than just company executives and investors who realize the strategic significance of these metals to the green economy and defense applications.

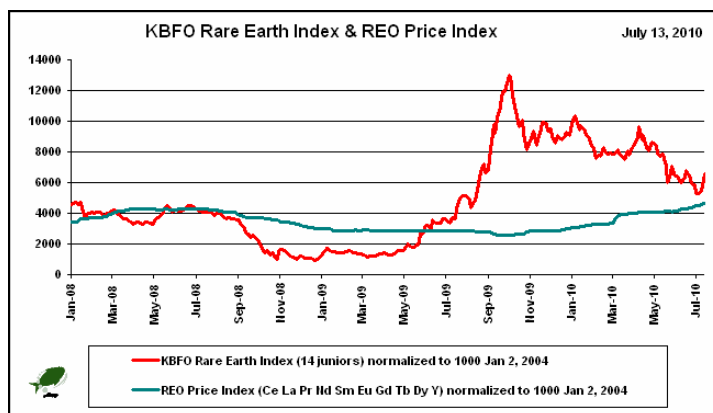


Chart courtesy of Kaiser Bottom Fish Report

In a recent [press release](#), Senator Lisa Murkowski (R-AK) has proposed legislation introduced June 22 that would ***“require the Obama administration to consider federal loan guarantees and stockpiling to promote domestic production of rare earth elements, which are increasingly used for environmentally friendly technologies.”*** This legislation compliments a bill already introduced in the House of Representatives.

If we really are destined for a “green” economy, then this is a sensible proposal by one of our leaders in Washington, however it's not just legislators in the United States who are waking up to this potential supply issue. [The Europeans](#) have noticed the same phenomenon as well and we can only assume legislation of some sort is in the pipeline.

The Chinese are also fully aware of the implications here and [recently](#) cut export quotas by 72% on rare earth elements for the second half of 2010. The official explanation was that this was done to create an environment where more oversight is placed on the domestic industry and stamp out illegal mining as well as create a more transparent and efficient marketplace for REMs. Based on what I've written, it seems hard to believe this is the only explanation. This sniffs of Resource Nationalism, plain and simple as Rio Tinto CEO Tom Albanese put it [here](#). Other than Senator Murkowski and perhaps a few Congressmen and women no one in the Congress seems concerned with the broader issue of global Resource Nationalism that is enveloping the world.

Given that REMs are increasingly under a geopolitical microscope, how should a discovery investor “play” this sector? There is no shortage of juniors here, but one that has piqued my interest recently is [Stans Energy Corp](#) (RUU: TSXV). This Toronto-based company won Kutesay II, a past-producing REM mine in Kyrgyzstan, in late 2009 and has an ambitious plan in place to move this open pit back into production. A few notable points about Kutesay II:

- Previously produced 80% of the former Soviet Union’s REEs from 1960-1991.
- Good infrastructure with a rail line 43 km away, electrical power on site, and a paved road from Kyrgyzstan’s capital city of Bishkek. The mine is 140 km away from the capital.
- Contains all 15 REEs and formerly produced them at purities up to 99.99%.
- Abundance of experienced labor in the area.
- The Soviets solved, at great expense, the metallurgy problems endemic to mining these metals.

The company believes the recent strife in the south of the country is declining because both Russia and the US want it that way. The company has been told by country officials to push forward with plans for investment in and production from Kutesay II.

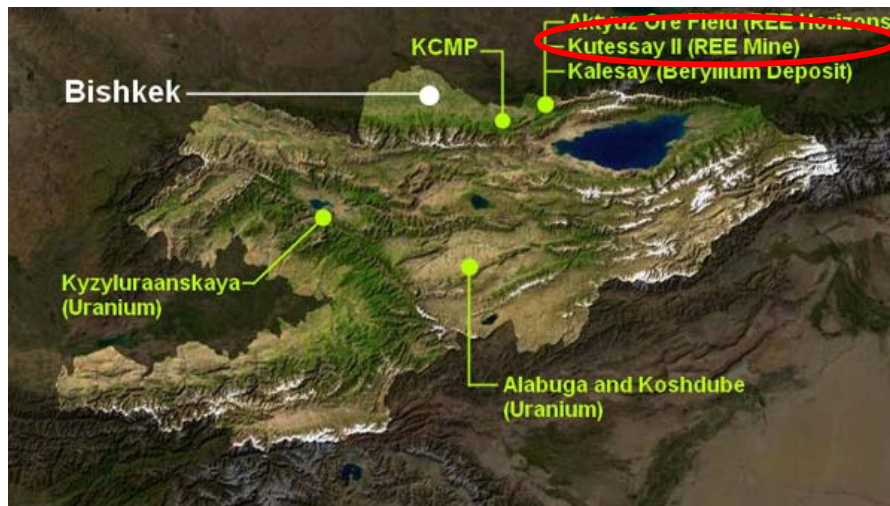


Photo Courtesy of Stans Energy

Stans holds a 25-year mine license and is currently conducting geophysical work on the Aktuz Ore Field (which hosts Kutesay II) with a plan to drill soon. The LREE/HREE split (light rare earths and the more valuable heavy rare earth elements) is 50/50 and the company will focus on producing HREEs such as Europium, Terbium, and Dysprosium as this is a higher margin business. You can see from the map that the company also has claims on other valuable deposits in the country, primarily uranium and beryllium, but the focus for now is on REMs.

Whether it’s Sen. Murkowski, RTZ CEO Tom Albanese, or mom and pop, we are beginning to realize the strategic importance of REEs and the disastrous potential for a supply crunch. With no way to buy the physical REEs for your portfolio, Stans Energy is a promising discovery incubator stock with limited downside. If the company can achieve its goal of HREE production, it could move from an incubator company to a mature discovery company reasonably quickly.

- LREE = Light Rare Earth Element
- HREE = Heavy Rare Earth Element
- REE = Rare Earth Element



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