

Today's Notes:

1. Graphite: Clean Technology Critical Metal
2. MacArthur Minerals (MMS TSX) Scoping Study Positive

## 1. Graphite: Not Only Pencils

Gary Economo's presentation on his Shock and Awe graphite and rare earth deposits in Quebec was so good on Friday that the shares traded up 25% by the end of the day on huge volume. Just a note for presenters, say what you have to say in 15 minutes and then answer our audience questions for 20. Gary did this with ease. You can watch his presentation on the webcast that has been archived at:

The Rare Earth Archive can be linked to directly by clicking here.

[www.ree.murdockcapital.com](http://www.ree.murdockcapital.com).

In Vancouver I presented my view of graphite opportunities. People reacted with scorn. No more. The US produces no graphite; instead she imports 100% of domestic needs. But given research into graphene, an allotrope of carbon, there is going to be a great deal of interest in exploration and development companies that build or participate in carbon supply chains. CEO Gary Economo told us that there is a research organization Focus is involved with that will study new uses of graphite.

It is important that a graphite deposit be flake graphite and high quality. Jack Lifton, a good friend and expert in many of these "technology" metals, has written an important article (***Graphite: A Diamond in the Rough***). You need to read it; it is available on the web<sup>1</sup>. In Vancouver I spoke on Focus Metals when it was C\$.47. This at the time FMS was a compelling Discovery Investment scoring in the top decile on the ten point grid for Incubator stocks. Gary's presentation Friday sealed the case. Byron King was present in the audience and wrote the company up yesterday.



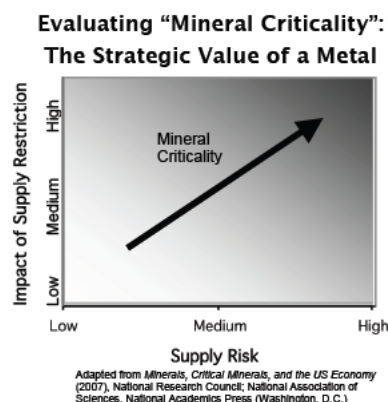
The shares have soared. Several of you have asked if I would I buy the stock here? Yes, I would take a small position (for me 10,000 shares), and hope the price cools off. The shares broke out after Gary's presentation Friday trading up 25% during the day on 1 million shares and yesterday following Byron's article traded up 55% on 4 million shares

Two issues are critical for Discovery Investors. First don't be mesmerized by the rare earth frenzy. It is critical and as a television producer interviewing me yesterday said, "it is sexy." But most of the shares are too expensive for current status of development. We mentioned this yesterday when we suggested to take some profits in the space.

Second, look where others are not looking – graphite, manganese and vanadium are a few places in the Deep Discovery Dark today and great discoveries here will pay off. This is a secret of Discovery Investing most violate. It is difficult to look where others will not in a Contrarian mode.

Rare earths today are far too visible (when a Washington TV producer calls me) and such visibility is a contra indicator, in my view. Remember the great uranium boom / bust of 2005/2008. Ouch.

Northern Graphite (Canadian junior) is coming public very soon. We met with management (CEO Greg Bowes) in Vancouver and like their knowledge base. Keep your eyes open for this offering. The new space of critical metals is upon us and it is growing every day. Jack Lifton commented at the recent Vancouver Critical metals Symposium, "the era of strategic value will be capitalized." We agree. Apparently Focus Metals is an example.



To be a really effective Discovery wealth generator in this specific tsunami you would have had to be in a year ago. About 16 months ago I wrote an article published in Forbes (available on request or see my website) on Avalon's rare earth potential from a year ago. This is when we encouraged rare earth investment.

## 2. MacArthur Minerals

A very good release from MacArthur Minerals came public yesterday. Chris Berry is on a research effort this week but has sent a few preliminary comments. In the meantime I will send out a summation of the company from an institutional coverage report released by Dundee in Toronto last week:

**MMS** is a Canadian-listed junior exploration company with a 100% interest in the Lake Giles iron ore project, located in the Yilgarn region of western Australia, located approximately 250 km northwest of Kalgoorlie. The company has delineated an inferred resource containing 1.1 billion tonnes of magnetite ore grading 28% Fe, and 18 million tonnes of direct shipping (DSO) hematite ore grading 58% Fe.

The company has completed a preliminary assessment of the DSO project and plans a full feasibility study for the DSO project this year. DSO production, at a rate of 2 mtpa is targeted for the end of 2012. An environmental impact assessment for the DSO project will be completed in 2011.

The company appears to satisfy rule 6 of the grid well and we like the management. The company trades at US\$0.27 per tonne Fe in-situ, compared to a peer group at US\$0.70 Fe in-situ;

There are no environmental, permitting, aboriginal or political issues apparent. The DSO project can be in production quickly, taking advantage of current high prices which could have a payback period of one year or less (according to Dundee). Fairly low CAPEX of US\$100 million with excellent rail infrastructure to the site and Port Esperance is closer to Asian markets than Brazil, India, South Africa or Canada, offering at least a US\$20 per tonne freight advantage over those competitors. You can see the reversal breakout that occurred yesterday. MMS has real potential to create wealth given global demand for iron ore and relative under valuation of the shares.

Yesterday the company announced that it had received a very positive scoping study for its Moonshine project at Lake Giles.

Chris Berry comments:

***We are awaiting an updated resource estimate but yesterday's scoping study was further validation of the project's economics.***

***Also it is a very good sign that they are getting institutional coverage (from Dundee).***

***Steel demand is forecast to grow at 6% per year going forward (according to Deutschebank), so this factor, the fact that the Indians are halting iron ore export from Karnataka and the slowdown of coal exports from Queensland due to the flooding has continued the upward price pressure on iron ore at roughly \$170 per tonne FOB.***

***MMS says they can produce the iron ore for roughly \$50 per tonne so you've got healthy margins with an expandable resource.***

***I'd be surprised if Cliffs, Rio Tinto, or BHP doesn't take them eventually try to out but maybe they're waiting for MMS to do more work on the project.***



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## **Graphite: A Diamond In The Rough For Investors?**

Posted By Jack Lifton On January 1, 2011 @ 7:03 pm In Batteries,Graphite,Hybrids & EVs |