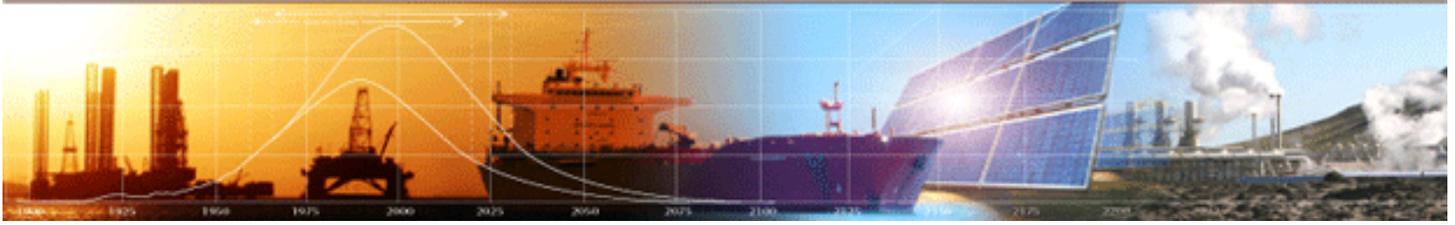


ENERGY & SCARCITY INVESTOR



Portfolio Comments - HRE, ICP, IB, BWN

Friday, July 15, 2011 by Byron King

Dear Energy & Scarcity Reader:

I'm in Toronto, where I've spent a couple of days meeting with representatives of energy and mining companies. I also came up here to attend the annual general meeting of my favorite rare earths (RE) player, Stans Energy. Let's launch straight into the updates.

Stans Energy (HRE: TSX.V)

I've discussed Stans Energy with you, in ESI, since last November. The share price has had its ups and downs, based on news flow. Lately, Stans shares have traded down along with much else in the stock market. Still, I've said that Stans shares are a buy. I think highly of the assets in Kyrgyzstan. I respect the technical abilities of the Russian partners. Most important, I believe in the vision that Stans management is pursuing.

The annual general meeting (AGM) gave me every reason to remain fully supportive of Stans. This company is superb! It's making real and clear progress.

At the Stans AGM, CEO Rob MacKay gave a masterful presentation on where things are and where they're headed. Stans has made excellent strides over the past several months. Here's a brief summary of a few highlights.

Stans now controls several RE-bearing ore bodies in Kyrgyzstan, as well as a massive beryllium deposit that's utterly world-class. New data (based on old Soviet work that has recently come to light) indicate that the beryllium could be a company-maker all alone. The future mine plans include digging out both the RE and the beryllium. The RE is still the main focus, but the beryllium adds immense value to the overall play.

The Stans ore bodies in Kyrgyzstan are rich in "heavy" RE - HRE. That is, it's the super-expensive stuff, including a strong component of yttrium. Yes, the Stans ore bodies have nominally lower grades than other ore bodies elsewhere in the RE investment space. But the Stans HRE ore bodies also have a Soviet-era history of mining and processing.

That is, for Stans, the metallurgy and engineering is there NOW to make the deposit work. Stans can turn its rocks into saleable products. By comparison, at every other HRE site in the world, outside China, the developers will spend years learning how to get it right.

The relationship between Stans and the Russian Leading Institute for Chemical Technology (VNIHT) has blossomed into a super-strong partnership. VNIHT is working with Stans on every step in the game, from concept, to design, to engineering, to hiring staff.

This is critical because VNIHT is a unique repository of human capital. VNIHT has a large stable of PhD-level metallurgists, chemists, physicists, etc. and the VNIHT folks know who's who in the former Soviet Union. VNIHT can get the very best people into the right places.

Meanwhile, VNIHT has completed a pre-feasibility study for Stans, and transitioned into preparing the final feasibility study. This latter item is due to the government of Kyrgyzstan by the end of 2011. From there, Stans estimates 18 months or so, to get the former Soviet mine, mill and processing plant back up and running.

At the AGM, Stans management estimated it would be producing HRE products by 2014 - perhaps three to five years ahead of any other developer outside of China.

Stans has many millions of dollars in the bank - and I'm intentionally not saying the exact number due to competition-sensitivity. I'll just say that there are sufficient funds to accomplish the near and medium term engineering, and early phases of construction. Meanwhile, Stans is being courted by several very significant banks that want to lend money for project finance.

In addition, Stans management stated at the AGM that there are seven (!) potential, world-class RE partners that are interested in joining the Kyrgyzstan development play. Not all of these guys will be part of the team that comes together at the end. Some combination of these potential partners will, eventually, make their respective deals with Stans for project participation. This will include contributing funds, engineering talent, project management and downstream processing expertise.

Stans has also released a list of engineering partners that are experienced in environmental consulting, construction, logistics and project planning. These partners are working with several new Stans employees in Kyrgyzstan, as well as other staff who work on a retainer and consulting basis.

Between the new Stans staff, the third party engineering talent and VNIHT, we're seeing the nucleus of the design-development-build team. They're doing the hard, back-office work that has to get done to make the plans move forward.

I could not be more pleased with the progress I'm seeing at Stans. Here in ESI, I've spent many months describing the basic assets - the ore body, the Soviet equipment, the basics of VNIHT, etc. Now there's a team formed up, to push the project down the line. All the while, Stans management is identifying funding (with limits on disclosure due to confidentiality), and giving a time line to 2014, which beats everyone else out there.

In short, Stans is on track to become the first new HRE producer in the world, outside of China. The target date is early 2014. Right now, Stans shares are a bargain, in my view. As an ESI reader, you're many months ahead of the market on this one.

Intercontinental Potash (ICP: TSX-V)

I haven't mentioned ICP lately. The best way to explain it is that ICP is like the really nice kid in school. He never gets into trouble. He keeps quiet. He gets straight A's. He plays every sport. He's in the school band. He... well, you get the picture.

ICP is simply moving its potash development along, down in the high desert of New Mexico. On time, on budget. Permits are happening. Water resources are happening. Engineering and development is happening. It's all clicking like a fine Swiss watch. No problems.

Indeed, the only thing "wrong" with ICP is that the whole stock market has sort of taken the past couple of months off. The ICP share price is down, due to no fault of anyone or anything at ICP.

So ICP shares are a superb buy. This is a project that's going to get built. It might even be sort of a shame if somebody else comes along and buys ICP out - not that I'd mind if (or when) a whole lot of ESI readers out there book a nice profit. But this project is unfolding so beautifully, that I have to wonder who could do it better.

IBC Advanced Alloys (IB: TSX-V)

I had a long talk with management at IBC a few days ago. Again, here's another company that's beating its own goals and exceeding all expectations. In a recent article, I discussed my trip to Boston to visit IBC's new, world-class, state of the art beryllium melt facility. This company is just plain going places in the beryllium space.

My talk with management this week had more to do with its research into using beryllium as a component of nuclear fuel pellets and rods. The short version is that adding beryllium improves the heat flow, so that the rods run cooler and last longer, yet yield the same energy in a nuclear reactor. There is, I assure you, a lot of complex physics at work, having to do with the neutron absorption properties of the alloyed rods.

Point is beryllium-uranium rods basically won't melt down. Something like this could give nuclear power a new lease on life, post-Japan and the disaster at Fukushima.

This beryllium research will take more time for the R&D to play out. It'll take time to run the testing and data analysis that all things nuclear require. It'll take time to gain government approvals for the beryllium-uranium mix. But it all truly adds value to IBC. You need to know this. The beryllium-uranium research is an important angle for IBC, and for those of you who invest in this great company.

Brownstone Energy (BWN: TSX-V)

I also had a long talk this week with the CEO of Brownstone Energy. As you know, Brownstone holds a series of working interests in natural gas concessions offshore Israel, as well as a series of oil blocks in Colombia.

Bottom line is, with Brownstone you get part of a gas play off Israel, and part of an oil play in Colombia.

If you follow the Middle East news, you may know that Egyptian saboteurs have blown up the main gas line into Israel four times in the past three months. It plays havoc with Israeli energy supply, and the Israelis are going all out to obtain more gas from their own offshore.

Brownstone isn't the operator of the Israel gas concessions, but the company's staff is playing a strong role in the background of development. The offshore geophysics is coming in, with drilling targets being identified. The Israeli government is highly supportive. The rigs will start turning in the not-too-distant future (with exact details confidential due to Israeli military security issues). It's good for Brownstone.

In the other half of the Brownstone play, we have rigs turning in Colombia, drilling into known oil-bearing strata. There IS oil, and the flow tests are still in progress, but the indications are that Brownstone is just months away from significant cash flow from oil operations. It's exactly as Brownstone management described it to me a couple months ago, and as I described it to you when I recommended this very fine company.

Right now, the stock market has sold Brownstone down. I have not the slightest idea why the selloff. It's a market error, in my view. Still, the selloff offers ESI readers a great chance to buy into Brownstone at a bargain-basement, discount price.

In Other News...

That's all for portfolio updates just now. I've got other investment developments to discuss, but they're still crystallizing and I'll get back with you next week.

If you're interested in learning more about my views on rare earths, I recently gave an interview to the Gold Report.

Meanwhile, I've had emails from readers, asking for my views on the national debt ceiling and the ongoing negotiations in Washington, DC over raising the debt limit and cutting government spending.

There's a common theme to the emails. It's whether the Washington antics will trigger a currency crisis, crash the dollar, wreck the stock markets, and kick the country into another recession or depression. ESI readers want to know whether to stay in the market, or cash out, move to the bunkers, close the steel blast doors and wait until the storm passes.

Well, I feel pretty comfortable discussing deep water oil development off Namibia, or rare earths development in Kyrgyzstan. But when it comes to the actions of real people, and especially at the ideological political levels we see in Washington? I can't predict the future, except to say that I sure hope that there's some sort of agreement that avoids a currency crisis, wrecking the stock markets, etc. We don't want to go there.

I'd also say that we've already seen a several-month downward movement in the general levels of the stock markets. This has hurt most of the resource players, even the best of energy and precious metals companies. So I believe we're closer to the bottom than to a top. Thus, if you're out of the markets you could miss a big chunk of the early rebound when it happens. (That term, "when," is my hopeful side showing through).

The Future of the Welfare State, and the Anti-Industrial Movement

You just have to accept the fact that U.S. politics are ugly. Not Civil War-ugly, maybe, but ugly enough really to screw up the economic progress of the country and hurt a lot of people. Basically, the nation is polarized over the direction of the welfare state. That, and there's a strong strain of "anti-industrialism" in the modern culture - what some call "environmentalism."

On the first count, concerning the future of the welfare state, my view is that the big-spending ways of government from the 1930s to the present are coming to an end. It was fun while it lasted, I suppose, but the U.S. has run out of other peoples' money to borrow. As for raising taxes to get more revenue? I think that the election results in 2010 sort of speak for themselves.

The other thing that's crippling the economy is the anti-industrialism of the modern culture. The U.S. political and legal culture is set up to block most major development, especially energy development. I'd say that the Alaska Pipeline of the early 1970s was the last great, onshore energy development in the U.S. - and it was far away in Alaska, authorized only after the shock of the Arab oil embargo of 1973.

Take away the huge capital expenditures within the U.S. economy, which would otherwise go for energy development. Do that for a couple of generations. Now we see an overall, chronic, weak U.S. economy that is, by the way, failing to generate jobs and tax revenue. By way of comparison, look at the few areas in the U.S. that are doing well, say North Dakota or central Pennsylvania or northern Louisiana. That's due to energy development.

I don't have a prescription to fix the whole country. Still, my advice to U.S. policy makers is this. If you want an economic shot in the arm, then lose the constant, permanent, knee-jerk opposition to energy development. Expedite large energy investment - onshore, offshore, the Arctic, everywhere. I mean oil drilling, gas development, pipelines, new electric power plants, transmission and more. There's nothing to lose but the recession.

That's all for now, have a great weekend and thank you for subscribing to and reading ESI...

Byron W. King