

Undiscovered Equities, Inc.

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Dear fellow investors and friends,

It was a brutal 2008 and just about everything that could go wrong did. I think its fairly evident that the stock market has put in a bottom – not all that surprising considering that analytical greats (and the same people that actually made money during the collapse) such as Stephen Leuthold whose Grizzly Short Fund made 74 percent last year, are now predicting a major up move for US equities. In fact Mr. Leuthold warned earlier this month that those that did not buy would “regret it”. I think as the chart shows small caps have been among the strongest in recovering a very good sign for the future.



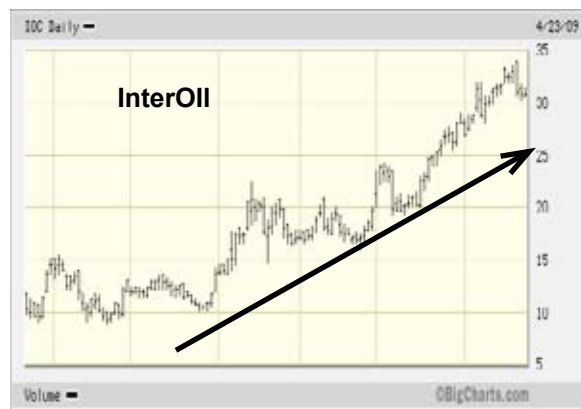
**Steven Leuthold**



### **InterOil shows what can happen**

Based on the premise that the tide is at last moving with us I think its time to survey the wreckage in our small cap arena and pick out the survivors that are still capable of executing business plans in a way that give them serious upside. We stayed with InterOil (IOC \$32.55) throughout the market collapse and have been amply rewarded. We remain bullish on this story as new highs look imminent. Record gas flows at InterOil’s Papua New Guinea discovery and the recovery of 44° gravity oil from a subsequent side track well (and more recently talk of a major Chinese funding package) has sent its shares back to where they were prior to the market collapse – a 300% gain in only three months! Now that InterOil’s shares have rocketed back to last year’s highs, the natural question is: which junior explorer is likely to be next?

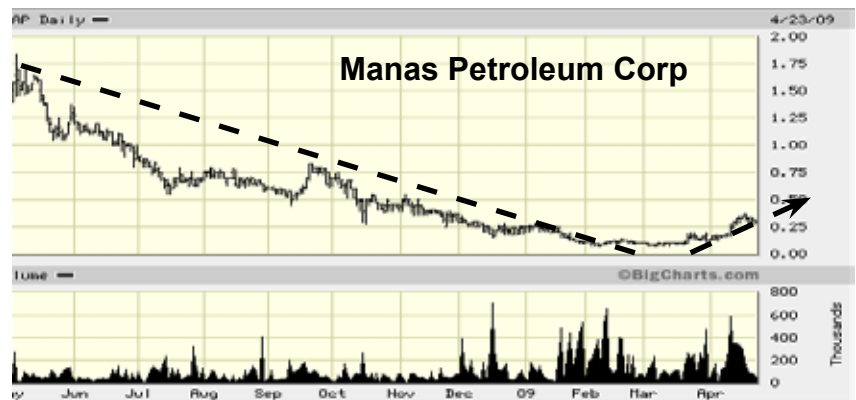
One company that looks set to rise, Phoenix-like out of the ashes of the market cataclysm is another of my favorites. Check out their latest news release which I’ve included and I expect you will at least begin to understand why. But here’s some background first. Read on to the next page.



## Great story but...

Manas Petroleum Corp. (OTC:MNAP) was a \$5 stock in 2007. That was when financing exploration companies was relatively easy and having a BIG story almost assured institutional investor support. Manas didn't have just one big story it had FOUR and then later FIVE big stories - all company builders on their own. Imagine that. Independent engineering studies estimated these projects' P50 potential totaled more than a recoverable 4 billion boe. One project covered as much land as Switzerland and another was so big the president of the country (Chile) saw fit to come down for the license signing ceremony. Clearly Manas had (and still has) big, serious, hall of fame projects. But its timing was terrible...

Then along came subprime, liar loans, credit default swaps, and the collapse of some of the world's most trusted financial institutions. The subsequent stock market implosion compared to 1929. Risk capital disappeared and, like all other oil exploration companies' shares, Manas Petroleum's share price was crushed.



## Big projects looked like they could become big liabilities...

Worse yet because Manas had not yet financed all of these projects, not only had speculative interest evaporated, but its big stories looked to have become BIG LIABILITIES. A lot of investors rightly worried that the cash needs of these giant projects could bankrupt the company or, nearly as bad, an equity financing if even possible would be extremely dilutive - in other words: result in the issuance of many millions of additional shares.

## Farm-outs reduce risk and set course for higher stock price...

The risk of dilution or worse now looks remote, principally because the company has dramatically reduced its overhead and has farmed out or is in the process of farming out every project except Mongolia which currently has enough funding in place for the next 2 years. Also there is little pressure on Manas regarding its largest project (Albania) as they have been granted the option of suspending exploration for 12 months and in the meantime have fulfilled their phase 1 obligations so that they really have until mid 2010 before they have to resume work. I doubt Manas will need to exercise the suspension option as I think its fair to bet that a farm out will occur long before it would be necessary, but more on that later.

## Oil major puts up precious dollars to continue Manas farmout no 1.

Clearly we should pay attention to a very bullish event that I think was overlooked by most investors a few months ago. That was when, right in the midst of the darkest days of the stock market and oil price collapse, Santos announced that it would be proceeding to Phase II of its JV with Manas in the Kyrgyz republic.

*"In an environment where it seems that just about every other oil project has been cancelled, Santos, a sophisticated oil major, has decided to continue its joint venture with Manas - thus committing to spending more than \$50 million."*

That tells me what I think should also become apparent to most readers: Manas Petroleum must have one heck of a project there. Those following it closely will know that Santos has an option to expand the program onto Manas Tajik licenses in a farmout that will likely be at least as big. I think it's likely they will so that's \$100 plus million. Those two projects' P50 in place potential is close to 2 billion barrels (up to 40% recoverable). On their own, they are company builders, and as such I think already justify a higher market capitalization than Manas's current \$30 million.

## Drilling at last

I don't know how you may feel about this but I have to admit the last two years have been very frustrating as we have waited for drilling to begin at the Kyrgyz project. Critically, as Manas outlined in this week's press release, Santos is about to begin drilling and these exploration wells which are literally surrounded by already producing oilfields. While we never really know for sure how a well will turn out until it is drilled, a shallow well next to production (one prospect is less than 2 miles from producing fields on both its southern and northern sides), is usually as easily drilled and as easy to produce as its neighbors (which in this case have been producing for 60 years).

When I first started in this business my boss used to say: "if you are on the way to the bank to get \$100 and you see \$50 on ground you stop to pick it up." How this relates to Santos is that while Santos was shooting seismic with the intent to better define the already known Kyrgyz deep high impact light oil plays, they managed to acquire very high quality seismic covering a series of smaller but still very robust and likely easily drilled shallow prospects. If successful these shallow prospects could easily end up producing a combined several thousand barrels of oil per day. And there are more like them in the area so I would not be surprised if Santos kept drilling.

Santos is acting similar to the proverbial man on his way to the bank who sees \$50 on the ground and stops to pick it up: they are stopping to take advantage of what looks to be easily drilled and produced oil, just as they are on their way to drill the really big prospects early next year.

## Like a freight train

I think the recent trading activity reminds me of the quiet rumbling I have heard while walking near a railway track as a freight train approached in the distance. Manas shares have broken out of a year-long downtrend, bottomed and now have decisively begun moving higher. Like the distant rumbling, the independent studies of Manas projects tell us why we should pay attention to its shares re-awakening. The culmination of Manas Petroleum's many years and over \$24 million spent amassing these giant projects is the onset of drilling which is about to begin.

## Manas Chart bullish showing clear bottom and upside breakout

At this phase Manas shares have broken out to the upside on a very healthy volume of 200-500,000 shares per day. Prior to its breakout, the company's chart formed what technical analysts refer to as a saucer pattern - among the most reliable indicators of a bottom and subsequent bull phase. At the same time weekly RSI, stochastics and OBV issued buy signals.



**XJ20 – Rig to drill  
Manas Ayzar Prospect**



## So What's next?

So what else is likely to happen as Santos drills wells in Kyrgyzstan? I think given the improved environment my bet is that Manas will soon farm out its Albania play – especially the appraisal of the Spiragu light oil discovery. Recall that until the stock market had collapsed management had no intention of farming out Albania. The company's management began looking for a partner only over the past few months - after the stock market had crashed. And my oil industry friends tell me that even in this market getting a partner to drill the appraisal of an already discovered onshore light oil pool in Europe should not be all that hard. After all, the numbers speak for themselves, and they are compelling. For example the estimated cost of production of any oil produced at the Spiragu is likely around \$2 a barrel (using a Gustavson economic study for nearby prospects) while the chance of successfully drilling the Spiragu is estimated at 70%. *As important is the Spiragu's immense size: estimated to be from 250 to 350 million barrels.* Much more speculative are two big similar sized exploration prospects in the vicinity of the Spiragu. At the same time an independent study of other fractured limestone (Manas held) light oil prospects to the north increase the potential of the Spiragu's deep fractured limestone play to over 3 billion barrels recoverable – all within Europe.



Flaring light oil at the Spiragu discovery

So this is where we get back to my freight train analogy. Santos is beginning to drill small shallow wells imminently, and the impact on Manas shares is evident – they have moved higher on bullishly expanding volume. But I believe this is just a taste of what is to come. What happens if and when (as they have already committed to doing) Santos starts drilling wells 10 times the size in the coming months? We don't even need higher oil prices to make this play more attractive, although I think by this fall that will happen too. And then there is Albania. Will it be farmed out? (I think likely). If so, what would be the effect of the drilling the Spiragu on Manas Petroleum's share price? My bet is that the drilling of deep high impact wells by Santos combined with drilling of a giant appraisal play in Albania is not going to make its share price go down. More likely is that given the size of these wells, Manas Petroleum's shares should be moving higher with all the force of a freight train.



Very Truly Yours,

Kevin McKnight,  
President

Undiscovered Equities, Inc. (My personal line is 1-800-404-8982)

**Please read this article and this disclaimer.** I think the more you learn about Manas the more you will understand why I am staking my reputation on this company. Manas Petroleum is the *only* company that Undiscovered Equities is representing and being paid for investor relations services. For a full disclaimer please log on to [www.undiscoveredequities.com](http://www.undiscoveredequities.com).