

Fundamental

Research Corp.

Investment Analysis for Intelligent Investors

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Apella Resources Inc. (TSXV: APA) – Initiating Coverage

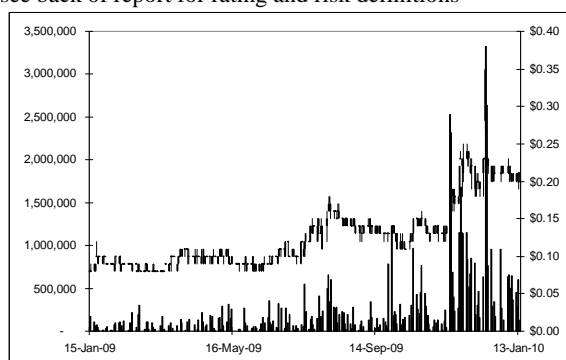
Sector/Industry: Junior Exploration/Mining

www.apellaresources.com

Market Data (as of January 15, 2010)

Current Price	C\$0.215
Fair Value	C\$0.30
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	C\$0.08 - C\$0.35
Shares O/S	106.20 mm
Market Cap	C\$22.83 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	3.52
YoY Return	168.8 %
YoY TSXV	88.7%

*see back of report for rating and risk definitions



Investment Highlights

- Apella Resources Inc. (“Apella”, “APA”, “the company”) is a Vancouver, British Columbia based exploration company focused on exploring its vanadium/titanium/iron projects located in central Quebec.
- The company's primary focus is the Iron-T vanadium/titanium/iron project located near Matagami, Quebec where the company's first drill program returned highlight results of 93.66 meters at 0.41% V₂O₅, 7.90% TiO₂ and 48.7% Fe in hole MA-09-07.
- The company has also received positive drill results from its first program at the Lac Doré North vanadium/titanium/iron project located near Chibougamau, Quebec. Individual holes returned multiple short intersections potentially mineable as a single unit.
- The Lac Dore deposit hosts a pre-NI 43-101 resource estimate of 102 Mt grading 0.49% V₂O₅.
- At the end of Q3-2009 (quarter ended July 2009), the company had \$0.83 million in cash, and \$0.68 million in available-for-sale securities. Working capital was \$1.09 million. Subsequently, the company raised \$0.94 million from two private placements.

Risks

- The company has not yet reported any NI 43-101 resource estimates nor does the company own any operating mines.
- Access to capital and share dilution.

Key Financial Data (FYE-Oct31)

(C\$)	2008	2009 (9 mo)
Cash and cash equiv.	1,173,685	825,529
Working Capital	1,704,383	1,094,095
Mineral Properties	4,341,620	4,800,203
Total Assets	7,169,454	6,980,518
Net Income	(3,163,949)	(1,462,743)
EPS	(0.03)	(0.02)

Apella Resources Inc. is a Vancouver, British Columbia based exploration company. The company is currently focusing primarily on advancing its vanadium/titanium/iron projects located in central Quebec. Recent drilling on the Iron-T and Lac Doré North properties have had very positive results.

Company Overview

Apella Resources Inc. is a TSX Venture-listed vanadium exploration company with its flagship property, the Iron-T, located near Matagami, Quebec. The company holds several other properties in Quebec including Lac Doré and Lac Doré North which comprise the Lac Doré Project. The Iron-T and Lac Doré projects are focused on vanadium mineralization but also contain significant amounts of titanium and iron. There is currently no domestic raw source of Vanadium, an important component of steel products. The U.S. currently imports 100% of its vanadium consumption. The company plans on developing the Iron-T and Lac Doré projects into a domestic industry. The company recently formed a subsidiary, Power Vanadium Corporation, into which the company anticipates placing the ownership of the vanadium properties.



*Figure 1: Location of the Iron-T and Lac Dore projects in central Quebec.
(Source: Apella Resources Inc.)*

Iron T Vanadium

Property Overview: The Iron-T vanadium/titanium/iron project is located in central Quebec near Matagami, Quebec. The company recently completed a drill program totaling 13 holes and 1,738.2 meters which tested an approximately 900 meter long section at 50 and 100 meter centres.

The property is composed of 134 contiguous claims encompassing just under 4,300 hectares situated just east of Matagami, Quebec. Vanadium mineralization is primarily associated with the magnetic mineral magnetite, and exploration work completed by previous

companies indicates a strong magnetically susceptible zone covering the majority of the company's 134 claims.

The project has key strengths of being located in mining friendly Quebec, having infrastructure advantages, as well as geological similarities to currently producing vanadium mines found worldwide.

Ownership:

The company holds 100% ownership in the 134 claims which compose the property. A group of 17 claims composing a portion of the property called the Audet Option is subject to a 3% Net Smelter Royalty, one half of which can be purchased by the company for \$0.5 million with a first right of refusal on the remaining 1.5%. The Audet option was acquired at a cost of \$250,000, and the company is committed to exploration expenditures of \$500,000 over a two year period. The remaining claims were staked by the company and are in good standing.

Access/Infrastructure:

The property is accessible by all weather gravel road N805 from Matagami which is located approximately 10 km WNW of the property centre. N805 crosses the central part of the property in an east-west direction and the eastern part of the property in a north-south direction aiding in exploration access. Matagami has a municipal airstrip which is currently not serviced by regular flights; however, charter flights to and from are possible. Additionally, the Canadian National rail-line passes approximately 15 km to the south of the claim block and may prove useful in further development of the project.

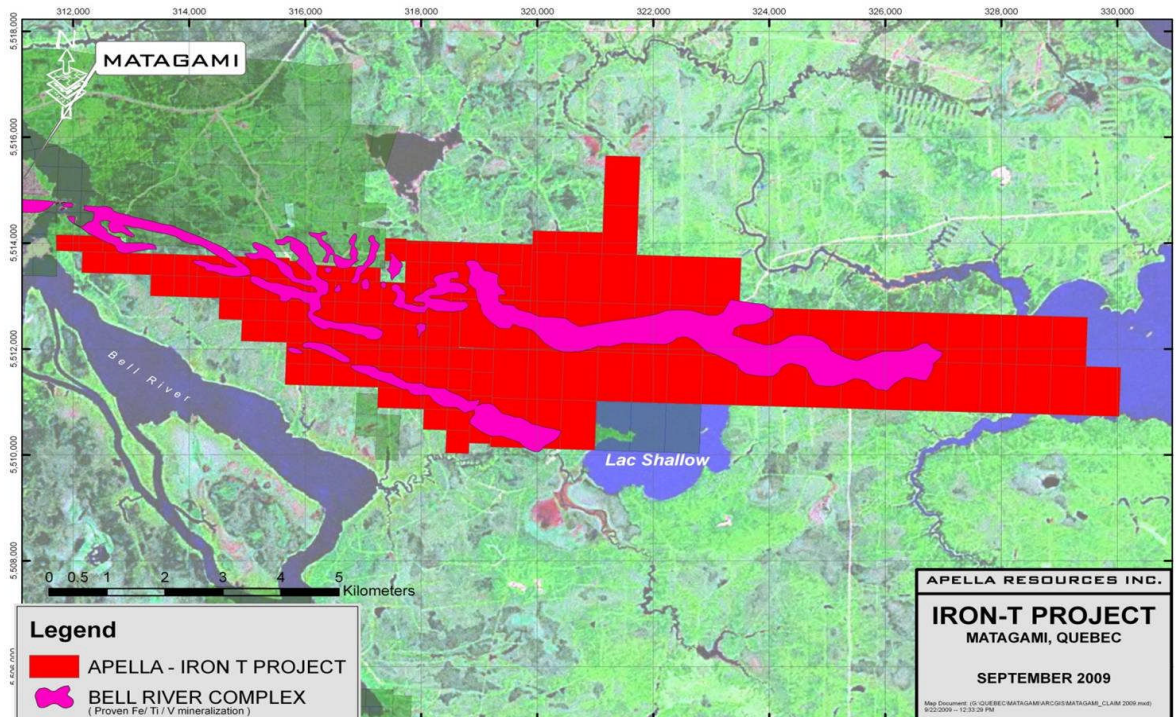


Figure 2: Bell River Complex superimposed on the company's Iron T claims.

(Source: Apella Resources Inc.)

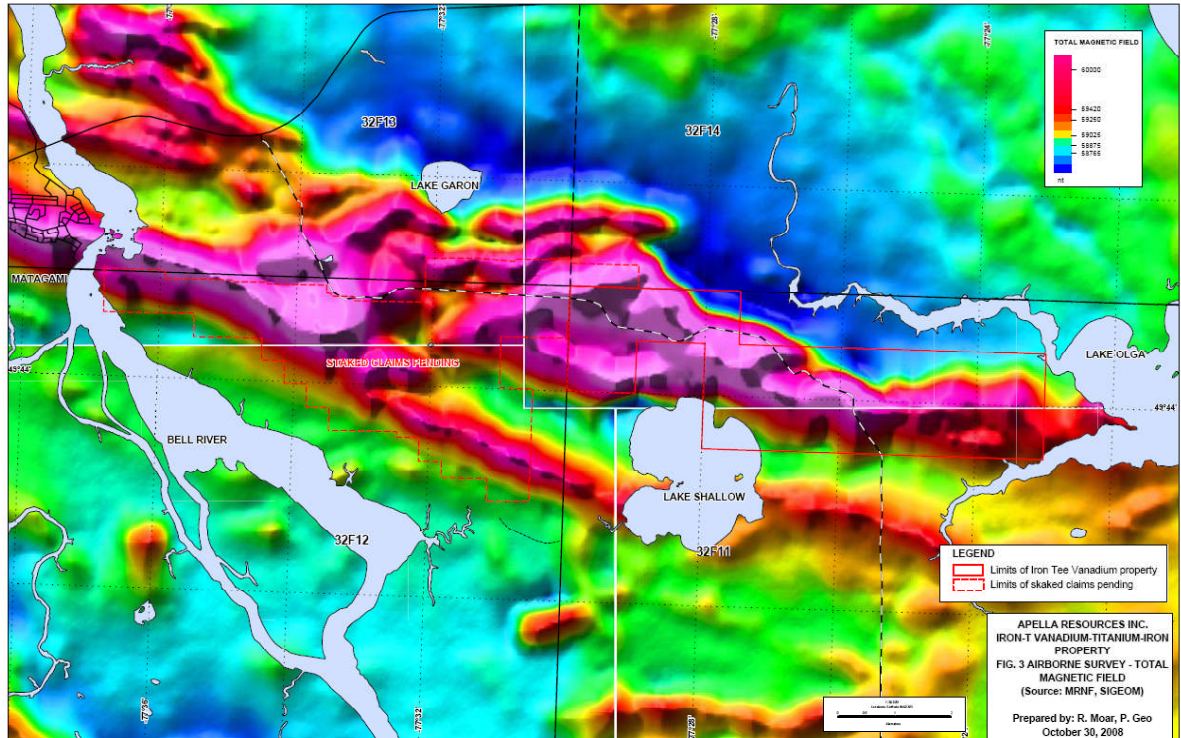


Figure 3: Total Field Magnetics at the Iron-T project. Magnetic highs are strongly associated with the mineral magnetite, which happens to host the vanadium mineralization in the Bell River Complex. (Source: Apella Resources Inc.)

Historic Exploration:

Mining companies have been exploring in the vicinity of, or on the actual Iron-T property since 1958, and work includes geological mapping, geomagnetic surveys and small diamond drilling programs.

The limited drilling programs initially identified continuous vanadium mineralization over a minimum strike length of 500 meters and it was noted that prospective targets were characterized by high magnetic susceptibility. Further work by Apella has built on this (see *Apella Resources Exploration* below for more details).

A ground magnetic survey completed in 2007 (Figure 3) shows that the claims cover a significant portion of a generally east-west trending strong magnetic anomaly. The survey also shows that previous drilling was actually completed over a 1,000 m long section of the magnetic anomaly with a width of 150 to 225 meters. Further, the geophysical survey indicates the strike length of the deposit potentially reaches 10,000 meters on company property.

Drilling:

The most recent diamond drilling on the property completed prior to Apella's acquisition and subsequent exploration of the property was completed in 1998 by Noranda Inc. – who in later years merged with Falconbridge, and in turn was acquired by Xstrata Plc. (LSE: XTA). Noranda completed two holes with the following results:

Hole LT98-01 – 0.19% V (0.34% V₂O₅ equivalent), 6.17% TiO₂ and 42.16% Fe over 36.45 meters (estimated true width 25.77 m); and 0.18% V (0.32% V₂O₅ equivalent), 4.84% TiO₂ and 30.04% Fe over 7.50 meters (estimated true width 5.30 m)

Hole LT98-02 – 0.15% V (0.26% V₂O₅ equivalent), 3.80% TiO₂ and 23.42% Fe over 16.50 meters (estimated true width 11.67m); and 0.19% V (0.34% V₂O₅ equivalent), 4.90% TiO₂ and 38.96% Fe over 22.70 meters (estimated true width 16.05 m).

Geology and Mineralization: The project is located in the Matagami volcanic complex in the northern part of the Abitibi Greenstone Belt. As we have discussed in previous reports, the Abitibi Greenstone Belt remains one of Canada's most prospective regions for discovery of a wide variety of mineral deposits.

As with many other Vanadium deposits, which are discussed in further detail below, Vanadium mineralization at Iron-T is strongly associated with a mafic to ultramafic layered intrusion, and particularly, the mineral magnetite. Layered intrusions are horizontally expansive bodies that show vertical layering or differences in composition in texture. Layers with similar composition and/or texture are often only 0.1 m to 10 m in thickness, and are found to repeat several times over a portion of the intrusion. At Iron-T, the Vanadium bearing layers (horizons) range from approximately 0.1 m to 4 m in thickness, and are found over the first several hundred meters in depth.



*Figure 4: Outcrop of the Bell River Complex, a layered mafic intrusion.
(Source: Apella Resources Inc.)*

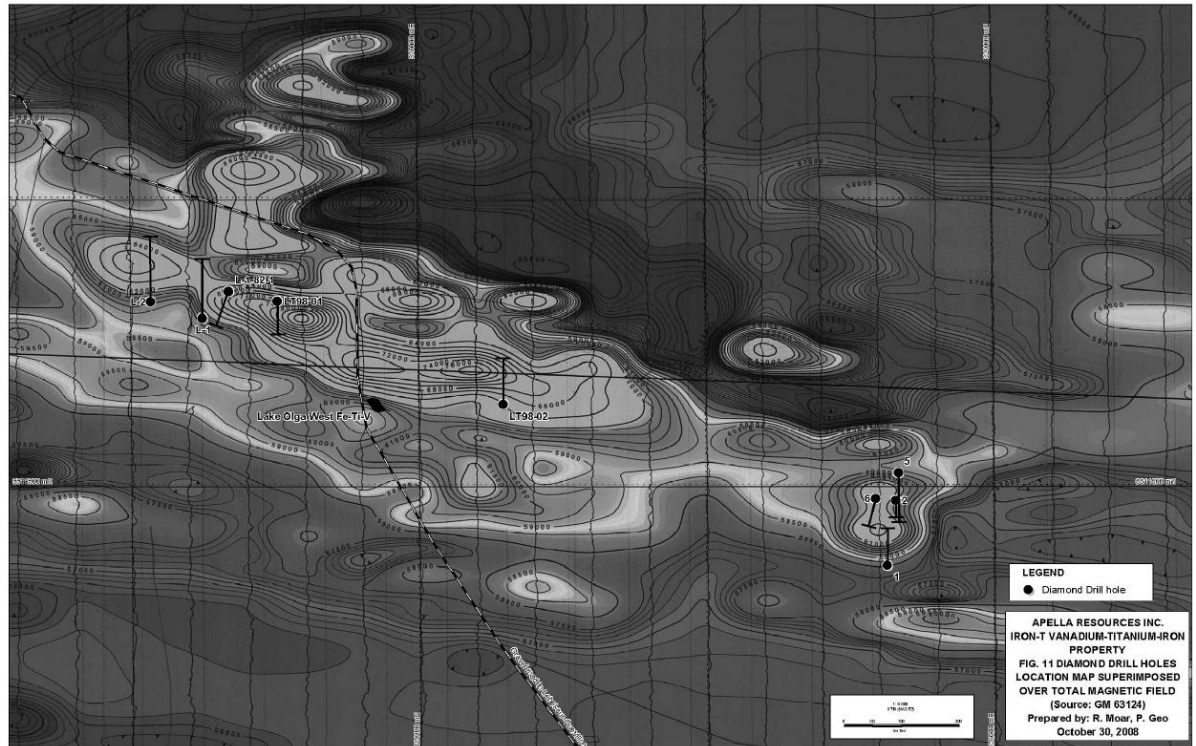


Figure 6: Historic drill holes superimposed on magnetic anomalies.
(Source: Apella Resources Inc.)

Referring back to Figure 3 above, we can see that Figure 6 represents only a small portion of the property area and the strong magnetic anomaly lies within the property boundaries. We can clearly see then that the strong relationship between the magnetic anomalies and vanadium mineralization impart great potential to the project. In fact, the company controls an approximately 10 km long section of prospective ground.

Of additional interest is the fact that the upper oxide-rich horizons of interest are found at or near surface which we believe would have a positive influence on an open pit mining scenario should an economic deposit be delineated.

Notes on Other Vanadium Deposits Worldwide:

While North America currently does not have any operating Vanadium mines, Russia, China, South Africa and Australia all host projects that are currently in production or are nearing production from layered intrusions. Below we briefly discuss a few of these projects.

Windimurra Vanadium Deposit – Western Australia

The Windimurra Vanadium Deposit, a past producer is currently owned by Windimurra Vanadium Limited (ASX: WVL “Windimurra”) and is in the recommissioning stage. The deposit is associated with a layered gabbro intrusion at the eastern flank of the Windimurra complex. The majority of the vanadium mineralization lies in a zone with approximate true thickness of 70 meters within the lower 200 meters of a 600 meter wide zone. Similar to the Iron-T project, magnetite plays the main role in hosting vanadium mineralization. Current

resources and reserves are as follows:

Classification	Tonnes (Mt)	V ₂ O ₅	V (%)	V (Tonnes)
Measured	46.68	0.48	0.27	126,000
Indicated	70.73	0.47	0.26	183,900
Inferred	59.18	0.44	0.25	148,000
Total	176.59	0.46	2.6	457,000

Classification	Unit	Total
Probable		
Ore	Mt	57.1
V ₂ O ₅	%	0.47
Proven		
Ore	Mt	40.7
V ₂ O ₅	%	0.47

Rhovan Mine – Bushveld Complex, South Africa

The 6.5 km thick sequence of the Bushveld complex is also a layered mafic intrusion and in 2006 produced approximately 39.5% of total world vanadium production (USGS, 2006). Once again, the primary mineral hosting vanadium mineralization is magnetite where the vanadium has replaced iron in the crystal lattice. The economically Main Magnetite Layer varies from 1.0 to 2.5 meters in thickness and is reported to extend for a strike length of approximately 200 km. The Rhovan Mine, which is currently owned by Xstrata, was reported to have the following resources and reserves as of September 2007:

Proved Ore Reserves – 39.2 Mt @ 0.51% V₂O₅
 Probable Ore Reserves – 10.5 Mt @ 0.53% V₂O₅
 Measured Mineral Resources – 64.4 Mt @ 0.51% V₂O₅
 Indicated Mineral Resources – 13.7 Mt @ 0.53% V₂O₅
 Inferred Mineral Resources – 124.9 Mt @ 0.51% V₂O₅

Panzhihua Mine

The Panzhihua mine in south-western China is producing from an Fe-Ti-V oxide deposit within the Panzhihua Gabbroic Layered Intrusion (PGLI). Since commencing production in the 1960's, the mine has produced 134 Mt of ore grading 45% FeO, 12% TiO₂ and 0.3% V₂O₅ with additional reserves estimated at 1,199 Mt of ore (source).

The Lake Doré Complex in Chibougamau, Quebec, which the company holds a significant interest in, and is discussed below, is another prospective Vanadium deposit related to a mafic layered intrusion.

Apella Resources Exploration: The primary exploration undertaken by the company includes channel sampling and the completion of a 13 hole diamond drill program.

Channel Sampling:

Channel sampling was completed on Trench A, an area excavated by Noranda in 1997, to confirm past exploration results. Both vanadium and titanium results were very positive returning grades as high as 0.819% V₂O₅ and 12.9% titanium. Assays also returned iron results as high as 45.3%.

Drilling:

The company only recently completed its first drill program on the property. The program totaling 13 holes and 1738.2 meters, tested approximately 900 meters along strike at 50, and 100 meter centres. Assay highlights include:

MA-09-07 – 93.66 meters at 0.41% V₂O₅, 7.90% TiO₂ and 43.87% Fe₂O₃ including 51.66 meters at 0.51% V₂O₅, 11.74% TiO₂ and 53.25% Fe₂O₃.

MA-09-10 – 59.74 meters at 0.41% V₂O₅, 6.51% TiO₂ and 40.41% Fe₂O₃ including 15.89 meters at 0.66% V₂O₅, 10.68% TiO₂ and 59.33% Fe₂O₃.

The results show a very positive start for the company in terms of both grade and near surface nature of the intersections. The identification of mineralization over a 900 meter strike length is also clearly significant.

Resource estimate: This project currently has no NI 43-101 compliant resource estimate.

Current Status: The company is currently analyzing the results of the recent drill program and is in the planning stage of a further 10-15 hole drill program on the property.

Conclusion: We believe that Apella has a highly prospective project on their hands. The three mines discussed above appear to indicate that economic deposits range from 0.3% V₂O₅ to 0.5% V₂O₅. The majority of results from Apella's first drill program have fallen within this range; an early positive for the project. The local infrastructure and mining positive attitude in Quebec are also likely to encourage progress at Iron-T.

*Lac Dore**Lac Dore
Vanadium
Project*

In addition to the Iron-T project, the company holds two additional Fe-Ti-V properties in Quebec, Lac Doré and Lac Doré North. These properties lie in the Chibougamau region of northern Quebec. At Lac Doré North, the company holds 100% interest in 27 claims and at Lac Doré, the company holds 100% interest in 43 claims. **Lac Doré hosts the Lake Doré Vanadium deposit which has a pre-NI 43-101 resource estimate of 102 Mt grading 0.49% V₂O₅.**

The two properties lie within close proximity to each other and can be considered in this report to be the same project. The tract of land that currently separates the properties is actually a set of unawarded claims that were overstaked by both the company and a competitor (Soquem, an exploration entity owned by the government of Quebec) in 2007, and contain a portion of the Lake Doré Vanadium deposit.

Unawarded Claims:

During the staking process undertaken by the company in 2007, a competitor staked 21 of the same claims as the company in the area of the Lac Doré property. The Quebec Ministry of Mines has since awarded the company nine of the contentious claims and awarded two to Soquem; the ten remaining claims are yet to be awarded. On September 15, 2009, however the company submitted documentation to the Quebec Ministry of Mines with supporting evidence as to why the unawarded claims should be awarded to Apella. We anticipate that the majority, if not all of the remaining claims will eventually be awarded to the company.

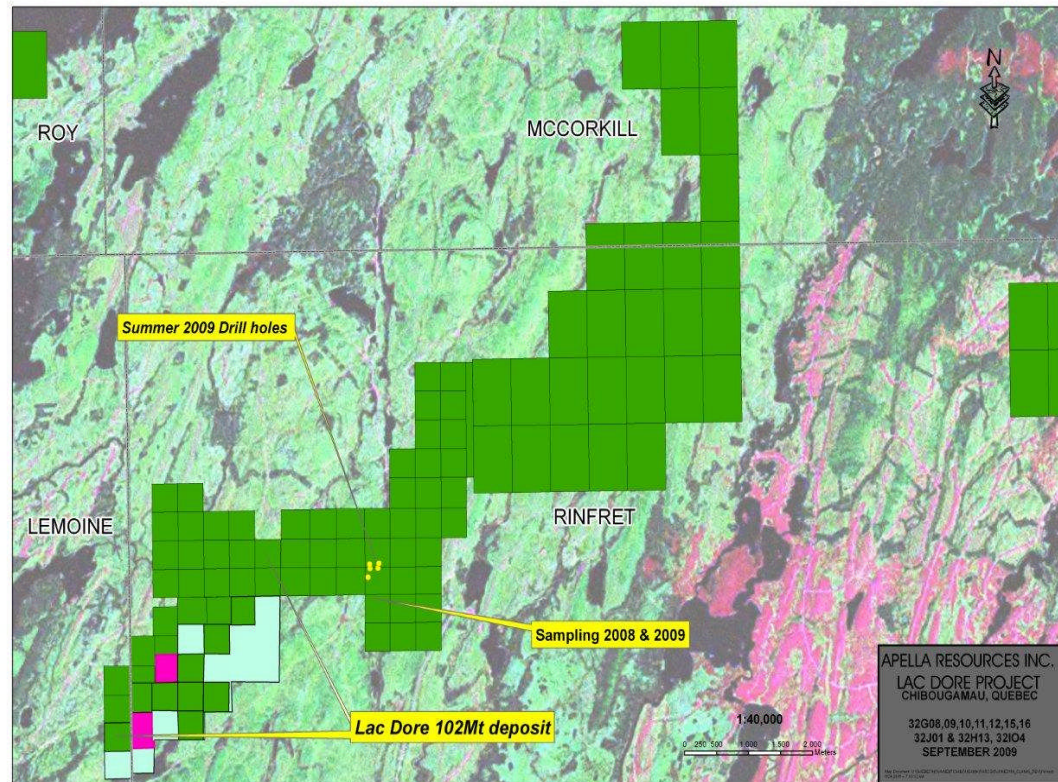


Figure 7: Lac Doré Claim map. (Source: Apella Resource Inc.)

Key Facts:

- The Lac Doré properties share similar characteristics to that of the Iron-T property in terms of both access and infrastructure as well as geologically. **The company states the project has excellent access by both rail and highway, and the project is considered the most advanced and largest vanadium deposit in North America.** This fact may potentially become outdated with the continued development of the Iron-T property.
- Geologically the Lac Doré project is also an Fe-Ti-V deposit hosted by a layered mafic intrusion, the Lac Doré Complex. Both the geological setting and vanadiferous mineralization are quite similar to that found in the Bell River Complex.
- Once again, the primary mineral associated with vanadium mineralization is magnetite which is contained in horizons that vary from 50 to 200 meters in thickness. These

horizons appear to extend for 16 km along strike as inferred from airborne magnetic data indicating significant potential to expand on the current resource estimate.

- Lac Doré hosts the Lake Doré Vanadium deposit which has a pre-NI 43-101 resource estimate of 102 Mt grading 0.49% V₂O₅.

Work Completed by Apella: To date the company has completed work on the Lac Doré project, primarily at Lac Doré north that includes:

- Two stripping and channel sampling programs
- The completion of 10 diamond drill holes
- A 66.7 km surface magnetometer survey

Stripping And Channel Sampling:

The results of stripping and channel sampling were very positive and aided in designating potential drill targets. The average grade of vanadium returned in assay results (as vanadium pentoxide) was 0.55% V₂O₅. Titanium (as TiO₂) returned values averaging 6.40% TiO₂ and iron returned an average grade of 32.81% Fe₂O₃.

Drilling:

The 10 hole, 993 meter drill program also returned positive results. Looking at Hole LDN-09-01, we see the typical cyclical fashion in which the deposits are formed; there is a constant repetition of intersections ranging from 0.65 meters to 8.37 meters in width with significant vanadium mineralization:

2009 DIAMOND DRILLING PROGRAM - LAKE DORE NORTH							
SIGNIFICANT ASSAY RESULTS							
<i>Calculated weighted grade with interval value greater than 0.25% V₂O₅</i>							
DDH NU	FROM (m)	TO (m)	LENGHT (m)	Fe₂O₃ (%)	TiO₂ (%)	V (%)	V₂O₅ (%)
LDN-09-01	2.62	3.27	0.65	29.25	5.59	0.230	0.411
LDN-09-01	7.75	12.52	4.77	30.66	5.78	0.235	0.419
LDN-09-01	15.12	19.10	3.98	21.36	3.77	0.153	0.273
LDN-09-01	20.60	27.35	6.75	24.86	3.85	0.164	0.293
LDN-09-01	33.96	36.60	2.64	28.27	3.92	0.160	0.286
LDN-09-01	39.12	39.83	0.71	43.43	7.54	0.280	0.500
LDN-09-01	47.40	48.02	0.62	41.93	6.35	0.240	0.428
LDN-09-01	50.61	51.68	1.07	54.88	9.60	0.360	0.643
LDN-09-01	53.65	60.62	6.97	35.08	5.70	0.229	0.409
LDN-09-01	66.25	67.25	1.00	30.73	5.00	0.200	0.357
LDN-09-01	70.70	75.98	5.28	39.23	6.27	0.255	0.456
LDN-09-01	78.04	79.60	1.56	43.20	7.48	0.290	0.518
LDN-09-01	80.49	85.88	5.39	35.28	5.80	0.226	0.403
LDN-09-01	86.50	94.87	8.37	30.19	4.97	0.196	0.349
LDN-09-01	95.76	97.11	1.35	29.10	4.63	0.180	0.321

(Source: Apella Resource Inc.)

Conclusion: A significant point to note regarding the results at the project is that the recent programs were completed on the Lac Doré North property. These claims are outside of the area that hosts the resource estimate, and yet, have proven to host significant vanadium mineralization. This of course hints at the size potential for the Lac Doré project as the mineralization is potentially continuous and imparts even more importance on the claims that remain unawarded.

Other Projects In addition to their vanadium interests, the company holds several other early stage projects in both Quebec and Ontario; the Frontline Uranium Assemblage, the Chibougamau Copper Gold Projects and the Firecracker Gold Project.

Management **Patrick D. O'Brien – President, Chief Executive Officer**
Patrick O'Brien, ICD.D has been involved with the resource sector for thirty years. Since 1992 he has served as either an Officer or Director of numerous companies in the sector. In 1992 Patrick joined Apella Resources Inc. and has served as President, CEO and Chairman of Apella. He has led the company through numerous project acquisitions, divestures and joint ventures throughout Canada. Patrick has been directly involved in raising millions of dollars of exploration and acquisition funds. He identified the opportunity to spin out Apella's gold assets into a new public entity named Pro Minerals Inc. which allowed Apella's shareholders to receive a dividend equity interest in this newly listed venture. Patrick and his management team negotiated and completed the multi-million dollar divestiture of the company's Raglan assets. He has recently guided the Company through its acquisition of some of Canada's key Vanadium-Iron-Titanium assets. Patrick is a qualified Corporate Director who has earned the designation ICD.D in Canada. He is a member of the Institute of Corporate Directors (ICD) in Canada and the Institute of Directors (IOD) in London, England. Patrick also has the distinction of receiving an Honors in Canadian Securities.

Brian F. Adams – Accountant, Director

Mr. Adams, FCGA a resident of British Columbia, Canada is a Certified General Accountant and has been a Principal in a highly respected independent accounting firm since 1968. Mr. Adams was elected a 'Fellow' of the Canadian CGA Association in 1974, a Life Member of the CGA Association of B.C in 1978 and received the Queen's Silver Jubilee Medal in 1977 for service to his profession. He has served on the Board of Governors of the CGA Association of B.C. and the Board of Directors of CGA Canada; as President of the CGA Association of B.C. and Chairman of CGA Canada; served as one of three Canadian representatives to the International Federation of Accountants; has been appointed a member of the Auditor Certification Board of B.C. and served as Chairman. Mr. Adams is an Associate Member of the Association of Certified Fraud Examiners.

Mr. Adams, in addition to many years of accounting experience, has considerable experience in supervising and conducting audits of Credit Unions, Trust Accounts and commercial ventures. He is an 'Accepted Expert Witness' by various Courts in Valuation and Accounting matters, and has served as a Court Appointed Receiver on numerous occasions.

Chris Chu – Corporate Secretary

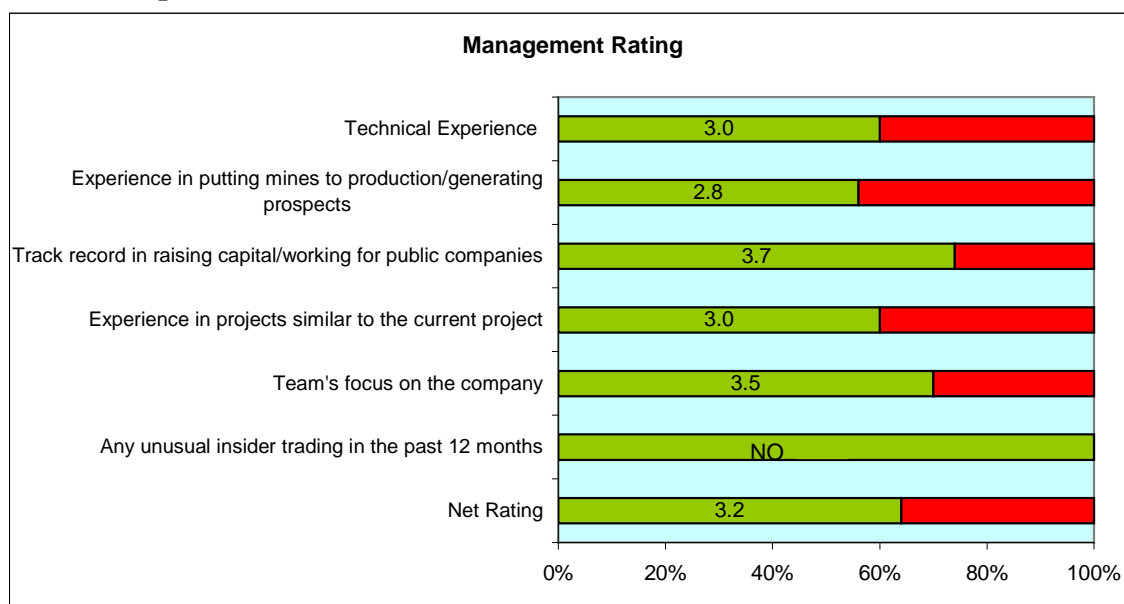
Mr. Chu, a Canadian corporate lawyer, with offices in West Vancouver, British Columbia brings many years of experience with public companies to the Apella Board. Mr. Chu has worked with many TSX Venture Exchange public companies on their initial listings and others on their corporate re-organizations. He will be working closely with the company on its compliance and contractual matters.

Jerry W. Dibble - Director

Mr. Jerry W. Dibble brings a wealth of knowledge and expertise to the Board. He has more than fourteen years experience in investor and public relations, as well as four years of investment banking and S.E.C. regulatory filings experience. Mr. Dibble was formerly a Series 7 Broker employed in the Houston, Texas office of A.G. Edwards and Sons, a large, highly respected National U.S. Broker/Dealer. Prior to that Mr. Dibble served as Executive V.P. of American Bank & Savings in the capacities of Chairman of the Real Estate Department and Operations Officer/New Loans. Mr. Dibble's specialty is Corporate Communications, Information Technology (IT) and Corporate Finance. His corporate contacts throughout North America and internationally prove invaluable to Apella's goal of enhancing shareholder value through corporate development, corporate communications and project financing strategies.

Management Rating

We believe that one of the most important aspects of a junior mining company is its management. Therefore we have developed a management rating system as a quantitative way to rate management based on a number of factors, including technical experience, the ability to raise financing, and management’s time commitment to the company. We also analyzed trading records to identify for evidence of unusual trading by management. **Our net rating for Apella (see below) is 3.2 out of 5.0, which we have rated average. The company has strong experience raising capital and the strong advisory board adds technical experience to the team.**



Strength of Board

We believe that the Board of Directors of a company should include independent or unrelated directors who are free of any relationships or business that could materially interfere with the director's ability to act in the best interest of the company. An unrelated/independent director can be a shareholder.

In this section, we present our strength of board rating for Apella Resources Inc., which uses information available from the company's annual "Management Information Circular" to ensure that the company has an independent Board of Directors, Audit Committee and Compensation Committee.

Apella's Board of Directors is made up of three individuals: Patrick O'Brien, Jerry Dibble and Brian Adams. None of the directors have filed for personal bankruptcy. All directors hold shares in the company. The related/non-independent director is Patrick O'Brien, as he is an executive officer of the company and receives compensation. The Audit Committee is composed of Patrick O'Brien, Jerry Dibble and Brian Adams.

Outlook on Vanadium

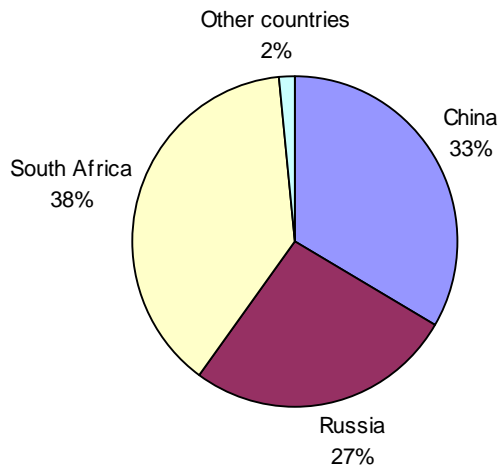
The Vanadium market is highly dependent on the steel industry as 90% of the vanadium produced is used as ferrovanadium or additives to increase strength and temperature endurance of steel products. We believe the strong growth in steel consumption will be one of the one of the key demand drivers for vanadium:

- Although global steel production dropped significantly as a result of the global economic crisis, we believe, the infrastructure stimulus programs announced by governments worldwide will increase consumption and production of steel.
- The World Steel Association estimates global steel demand to grow by 9.2% in 2010, after an 8.6% YOY drop in 2009.
- CRU Strategies estimates, as a result of an increasing demand for higher strength low-alloy steel, the intensity of vanadium use per tonne of steel will increase from 0.046 kg/tonne in 2008, to 0.0511 kg/tonne in 2011; implying a 11% increase.

Additional demand drivers of vanadium, we believe, will be from applications in aerospace, automobiles, high-speed drilling, power plants, and the rail car industry. Also, vanadium has applications in battery technology, and renewable energy storage, both of which are growing at a rapid pace. It is important to note that vanadium demand will be affected if the price of vanadium gets very high, as metals such as ferroniobium can be substituted for ferrovanadium for some types of special steel. However, vanadium remains irreplaceable in the aerospace industry, and battery technology applications.

With regard to vanadium supply, China, Russia, and South Africa are the top producers. In 2008, the three countries accounted for 98% of global production, or 59,000 metric tonnes of vanadium. Global production in 2008 was 60,000 metric tonnes, up 2.6% YOY. The U.S. currently imports 100% of its consumption.

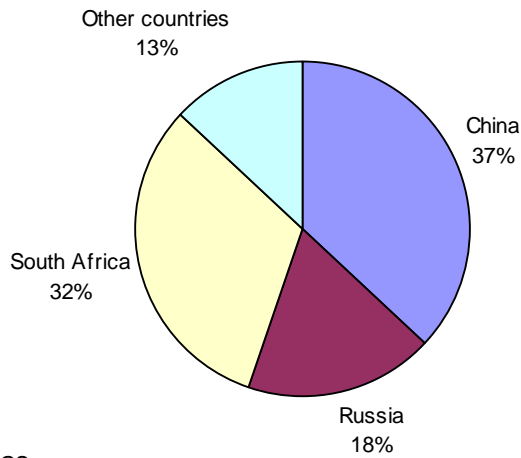
Global Mine Production



Source: USGS

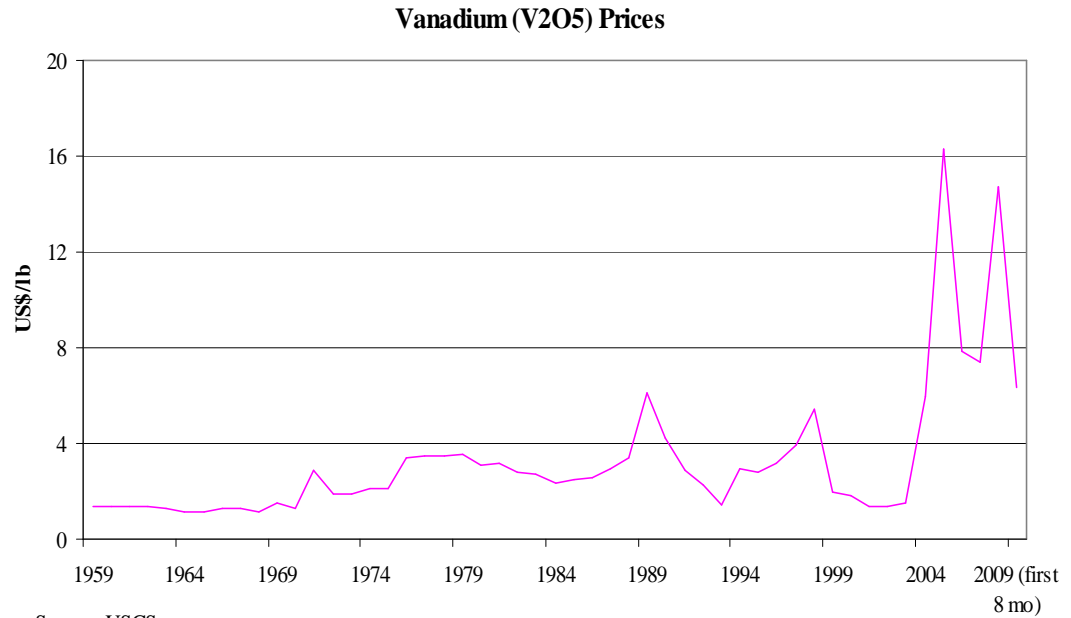
In terms of reserves, South Africa, Russia and China account for 87% of global reserves of 38 million tonnes.

Global Reserve Base



Source: USGS

The following chart shows Vanadium (V_2O_5) prices since 1959.



Source: USGS

As shown in the chart, vanadium prices have been highly volatile in the past few years. V_2O_5 is currently trading at US\$7/lb.

Overall, we believe the following key factors will keep vanadium prices well above the historic average:

- Demand growth will largely depend on the steel industry, since it accounts for over 90% of vanadium demand. China and India did not experience a significant drop in steel production during the global financial crisis, and their demand for high strength micro alloy steel is expected to grow.
- Despite a significant rise in vanadium prices in the past few years, global production has experienced slow growth over the last decade.
- Supply is expected to remain relatively stable among the three major producing countries; thus, any increase or decrease in demand is likely to have a significant impact on vanadium prices.
- In addition to the traditional use of vanadium in various steel applications, we expect demand for applications in battery technology and energy storage will increase the demand for vanadium.

Financials

In the first nine months of FY2009 (ended July 31, 2009), APA reported a net loss of \$1.46 million (EPS: -\$0.02). We estimate the company's burn rate (cash spent on operating and investing activities) in the first nine months of FY2009 were \$0.11 million per month, versus \$0.26 million per month in FY2008 (12 month period). The table below shows the

company's cash and liquidity position.

(in C\$)	2008	2009 (9 mo)
Cash and cash equiv.	1,173,685	825,529
Working Capital	1,704,383	1,094,095
LT Debt/ Assets	-	-
Burn Rate (per month) - cash spent on operating & investing	(260,985)	(110,340)
Cash Flows from financing	1,648,135	596,400

At the end of Q3-2009 (quarter ended July 2009), the company had \$0.83 million in cash. Working capital was \$1.09 million. Subsequently, the company raised \$0.94 million from two private placements.

- In September 2009, the company raised \$0.44 million by issuing 2.92 million units at a unit price of \$0.15. Each unit consisted of a common share and an 18 month share purchase warrant (exercise price - \$0.15 in the first six months, and \$0.20 in the remaining 12 months)
- In November 2009, the company raised \$0.51 million by issuing 4.05 million units (3.93 million – flow-through, 0.12 million – non flow-through) at a unit price of \$0.125. Each unit consisted of a common share and an 18 month share purchase warrant (exercise price - \$0.15 in the first six months, and \$0.20 in the remaining 12 months).

Assuming the company maintains its burn rate (same as in the first nine months of FY2009) going forward, we believe cash will last for at least six more months.

Stocks and Warrants: The company currently has 17.93 million stock options and 18.46 million warrants outstanding.

Valuation and Rating

We valued APA based on the known resource estimate on the Lac Dore deposit. Based on an average enterprise value to resource ratio of \$0.03/lb, we arrived at a fair value estimate of \$0.29 per share on the company.

Company	Ticker	EV/V2O5 Resources (\$/lb)
Largo Resources	TSX.V:LGO	\$0.06
Sino Vanadium Inc.	TSX.V:SVX	\$0.05
Apella Resources	TSXV:APA	\$0.02
Aurox Resources Limited	ASX:AXO	\$0.01
Rocky Mountain Resources Corp.	TSX:RKY	\$0.01
Average		\$0.03
Fair Value (C\$/share)		\$0.29

The resource estimates of APA's peers include 100% of measured and indicated, and 50% of inferred and historic resources. However, considering the potential of the Lac Dore deposit, we used 100% of its historic resource estimate.

Therefore, based on our review of the company's, projects, our valuation, we initiate coverage on APA with a BUY rating, and a fair value of \$0.30 per share.

Risks

The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- The value of the company is dependent on commodity prices.
- The company has not defined any NI 43-101 compliant resource estimates and does not currently have any operating mines.
- The success of drilling, project development and resource expansion are important long-term success factors for these early projects.
- Access to capital and share dilution.

We rate the company's shares a RISK of 5 (Highly Speculative).

Fundamental Research Corp. Equity Rating Scale:

Buy – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk

Hold – Annual expected rate of return is between 5% and 12%

Sell – Annual expected rate of return is below 5% or the expected return is not commensurate with risk

Suspended or Rating N/A— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.

Fundamental Research Corp. Risk Rating Scale:

1 (Low Risk) - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.

2 (Below Average Risk) - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.

3 (Average Risk) - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.

4 (Speculative) - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.

5 (Highly Speculative) - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.

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