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Mercenary Alert: A Quest for the Profitable Trade

A Special Alert Musing from Mickey the Mercenary Geologist

For Subscribers Only

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I am always on a quest for the next profitable trade in the junior resource sector.

One of my best success stories post-2008 crash has been [Quest Rare Minerals Ltd \(QRM.MKT: QRM.T\)](#) . I became a shareholder via a private placement in June 2009 when it was an up-and-coming penny stock. QRM became a sponsor and was introduced to subscribers in late March 2010 at a price of \$2.85 in late March 2010. It reached an all-time high of \$8.88 in late April of 2011.

Folks, that's a rise of 311% in 13 months. I trust that you made profitable trades during this run-up. I did that in January 2010, taking all my money off the table as per the [Power of Two](#) trading methodology.

QRM is currently trading about \$1.20, a level not seen since it began a rapid uptick in August 2010. Here's the four-year chart of QRM illustrating its multiple ups and downs:



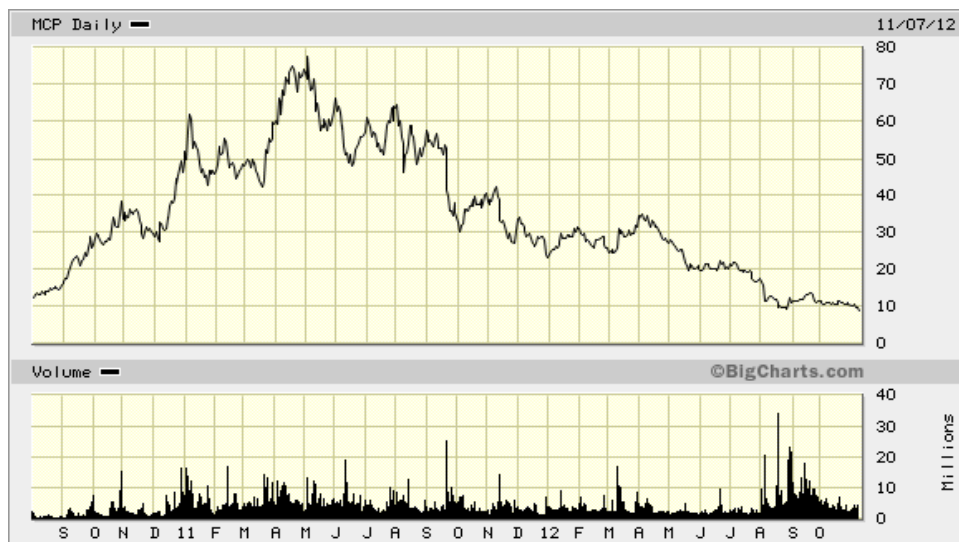
For a more complete background on Quest, I suggest you consult my previous musings on the company ([March 10, 2010](#); [November 22, 2010](#); [April 11, 2011](#)).

Since September 2008 I have written and spoken extensively about the junior rare earth element sector, producing over 20 musings, many of which were posted under the banner of “REE Reviews” ([Mercenary Musings and Alerts](#)).

Quest was one of my four “[cream of the crop](#)” picks in the junior rare earth sector. I first identified these four companies as such in late July 2010, just a few days before industry giant Molycorp’s initial public offering on the New York Stock Exchange. Throughout that summer and fall, the gang of four was the focus of my attention, and they are still the only ones to achieve coveted AMEX listings.

During those heady times I coined an axiom that still holds true today: *As goes Molycorp, so goes the minions.*

For proof, let’s compare the charts of MCP and QRM since the former’s IPO on July 30, 2010. Also note that Molycorp closed at its all-time low today, below \$9.00:



The REE bubble spawned well over 200 Toronto-listed juniors that rushed into rare earth space from mid-2009 to early 2011. Many companies failed quickly while some got out in mid-2011. Others waited until after the bubble burst and belatedly exited with highly diluted share structures, discredited projects, no cash in the kitty, and low seven-figure market caps.

Still others have hung on and now trade for pennies. They have no future shy of a shell waiting to rollback, settle debt with shares, and reincarnate under the same serial bad management when the next big thing comes around.

I've also written extensively about this legion of bad boys under the aforementioned REE Review series. In fact, these brief and pointed musings got me censored at the Rare Metal blog for disparaging some of their clients. Apparently only positive opinion invoking unwavering support for paying sponsors is allowed under that banner.

But not to fear, we quickly found fellow analysts in the sector who were willing to post my honest and hard-hitting opinions. We also posted all the previous works to my newsletter archive.

Today several rare earth companies soldier on, and some are reaching important decision points. A select few are well on their way to implementing exit strategies. Folks, this is simply how venture capital resource markets work: 95% are failures and 5% are success stories.

I digress; back on the subject at hand:

Quest remains a well-managed issuer with only 61.9 million shares outstanding, no warrants, and 5.6 million mostly in-the-money options. At its current trading range, the market capitalization is about \$75 million and the company has a healthy cash position of \$40 million. According to the company, the share structure includes about 5% held by management and insiders, 20% considered tightly held by family and friends, and 15% by institutional funds. This ledger produces a retail float of about 37 million shares, mostly held by Americans.

Since I became a shareholder, the company's inner circle of geologists has remained constant. Company founders include Honorary Chairman Mac Watson and CEO Peter Cashin and the exploration team is led by Pierre Guay and Patrick Collins. These four gentlemen were all there during my first visit shortly after Quest's heavy rare earth element deposit was discovered in the late summer of 2009.

Key engineering personnel were added recently and include metallurgist Colin Lindsay as Vice-President Operations, process metallurgist Mike Robart, and specialty metals marketer Gunther Thase. The Board of Directors includes well-known mining and finance professionals with successful track records. Mehdi Azodi heads corporate communications and investor relations for the company.

Quest Rare Minerals has made significant progress on its Strange Lake B Zone project this year, including completion of a second phase of bench-scale metallurgical testing with successful separation of REE, zirconium, niobium, titanium, and uranium-thorium products. Although the metallurgical process has progressed much slower than expected, a mini pilot-scale test is scheduled to commence within the month.

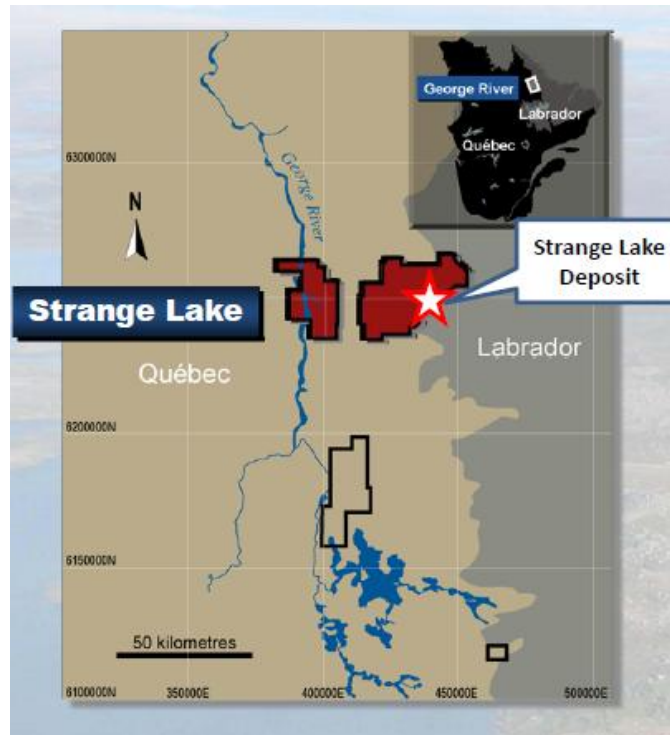
The company recently retained Hatch Associates to complete metallurgical engineering design for a pending pre-feasibility study and begin a scoping study for an on-site REE separation plant.

The best recent news has been a new resource estimate tabled by Micon International that doubled the global mineral inventory of indicated and inferred resources:

At a base-case cut-off grade of 0.5% TREO+Y, the B-Zone contains indicated resources of 278 million tonnes grading 0.93% TREO+Y, 1.92% ZrO₂, 0.18% Nb₂O₅, and 0.05% HfO₂ and inferred resources of 214 million tonnes grading 0.85% TREO+Y, 1.71% ZrO₂, 0.14% Nb₂O₅, and 0.04% HfO₂.

More importantly, the high-grade starter-pit mineralization of the Pegmatite Spine now comprises 20.0 million tonnes at 1.44% TREO+Y (including 0.72% HREO+Y), 2.59% ZrO₂, 0.34% Nb₂O₅ and 0.06% HfO₂. This increase will allow the company to extend mining of high-grade ore to 14 years with lower operating costs and faster payback of capital.

I've made two visits to Strange Lake in northeastern Quebec, in the late summers of 2009 and 2011 respectively. The project is located 250 km north of Schefferville and 125 km west of Voisey's Bay, Labrador:



Strange Lake, Northeastern Quebec



Bird's-eye View of the Strange Lake Camp in August 2011



2011 Tour of Analysts, Geologists, and Company Personnel



High Grade REE-bearing Core from the Pegmatite Spine

Quest Rare Mineral's Strange Lake project is in a very remote location with climate and infrastructure challenges. It faces both technical and execution risks within the next two years including:

- Successful resolution of the hydrometallurgical concentration and recovery process at full pilot plant scale.
- Completion of and positive results for ongoing economic studies including a pre-feasibility report expected within the next two months.
- Permitting in Quebec and Labrador; in particular, transport of rare earth concentrates across Labrador to a deep water port.
- Financing of the project followed by construction, development, and mining.

Quest is currently trading at a four-year low and with a lower market cap and at a sharp discount to its peers. It has a low number of shares outstanding, the largest and highest grade resource of heavy rare earth elements in the world, and soon will deliver a pre-feasibility study that analysts expect to be robustly economic, albeit with high capex.

Catalysts that could move QRM in the near-term include:

- Improved Q3 and Q4 operating performances for Molycorp that would result in a high share prices for it and its four AMEX-listed brethren.
- An update on the progress and status of metallurgical testing and commissioning of a mini pilot plant this month.
- Delivery of the pre-feasibility study. According to Quest management, it is scheduled by or before early Q1 2013.

- News of a user off-take contract, strategic alliance or partner, support from Quebec sovereign funds, and/or partial project financing.
- Price rebound after speculators finalize their 2012 capital gains ledgers with tax-loss selling.
- Increased liquidity if venture capital flows back into the junior resource space in early 2013.

The charts of Quest Rare Minerals illustrate the nature of micro-cap resource explorers and developers: Junior companies are made to trade; this is not a buy-and-hold game. Nearly every active company on the Toronto Venture Exchange will have at least a double in its running 52-week low to high. For example, Quest is over a triple in the past year, from \$1.13 to \$4.04.

QRM has presented many entry and exit opportunities for the savvy investor since I initiated coverage in early Q2 2010. With its currently depressed share price in an equally depressed rare earth sector, I suggest this may be an opportune time for contrarians to consider another speculative investment in Quest. That said, you are not me and I am not you. What I may consider a logical move for those with no shareholdings could be an anathema for you. You must do your due diligence and take responsibility for your own actions.

Please note I am biased in my view of Quest Rare Minerals Ltd. My effective cost basis in QRM has been zero since 2010's first day of trading when I divested of a small tranche for a 15-bagger return. I have and I will continue to take profits in the company as market conditions warrant.

Quest has rewarded my subscribers handsomely over the past two and a half years. However, effective with posting of this Alert, the company has made a business decision to end its sponsorship and therefore, I will cease coverage.

That said, as a shareholder I will continue to follow Quest Rare Minerals Ltd as it progresses toward upcoming decision points in the next 12 months.

Ciao for now,

Mickey Fulp
Mercenary Geologist



Acknowledgement: Michelle Lopez is the editor of MercenaryGeologist.com.

The [Mercenary Geologist Michael S. "Mickey" Fulp](http://MercenaryGeologist.com) is a Certified Professional Geologist with a B.Sc. Earth Sciences with honor from the University of Tulsa, and M.Sc. Geology from the University of New Mexico. Mickey has 35 years experience as an exploration geologist and analyst searching for economic deposits of base and precious metals, industrial minerals, uranium, coal, oil and gas, and water in North and South America, Europe, and Asia.

Mickey worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for over 20 years, specializing in geological mapping, property evaluation, and business development. In addition to Mickey's professional credentials and experience, he is high-altitude proficient, and is bilingual in English and Spanish. From 2003 to 2006, he made four outcrop ore discoveries in Peru, Nevada, Chile, and British Columbia.

Mickey is well-known and highly respected throughout the mining and exploration community due to his ongoing work as an analyst, writer, and speaker.

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Disclaimer: I am a shareholder of Quest Rare Minerals Ltd. I am not a certified financial analyst, broker, or professional qualified to offer investment advice. Nothing in a report, commentary, this website, interview, and other content constitutes or can be construed as investment advice or an offer or solicitation to buy or sell stock. Information is obtained from research of public documents and content available on the company's website, regulatory filings, various stock exchange websites, and stock information services, through discussions with company representatives, agents, other professionals and investors, and field visits. While the information is believed to be accurate and reliable, it is not guaranteed or implied to be so. The information may not be complete or correct; it is provided in good faith but without any legal responsibility or obligation to provide future updates. I accept no responsibility, or assume any liability, whatsoever, for any direct, indirect or consequential loss arising from the use of the information. The information contained in a report, commentary, this website, interview, and other content is subject to change without notice, may become outdated, and will not be updated. A report, commentary, this website, interview, and other content reflect my personal opinions and views and nothing more. All content of this website is subject to international copyright protection and no part or portion of this website, report, commentary, interview, and other content may be altered, reproduced, copied, emailed, faxed, or distributed in any form without the express written consent of Michael S. (Mickey) Fulp, Mercenary Geologist.com LLC.

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