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The Quest for Rare Earth Elements

A Monday Morning Musing from Mickey the Mercenary Geologist

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Surely you know that the favorite flavors of the past year in Canadian juniors have been the rare earth element companies. Market capitalizations of the *real* players in this sector have increased three to 50 times in little more than ten months. Imagine that: A 50 bagger! It's little wonder we throw our gambling dollars into the junior resource sector.

Luckily I was no Johnny-come-lately to this game, having written about supply, demand, and uses of these obscure metals and an REE exploration company in June 2007 and again in September 2008. I toured another major rare earth element player in the field that same month.

However, not many analysts, newsletter writers, or websites covering junior resource space were cognizant of this looming strategic minerals supply-chain problem for the United States. That is until Jim Dines rocked his subscribers' world in a newsletter on May 22, 2009 proclaiming himself "The Original Rare Earth Element Bug".

An idea of how quiet and unknown this sector was for the average retail investor is illustrated with a one year chart of the company that I review in this musing:

You may have guessed by now that this company is **Quest Uranium Corporation (QUC.V).**

The company announced a new focus on rare earth element exploration in early April 2009 but the market did not react immediately. It traded at 5 cents on April 30, rose to 15 cents on May 22, and to 21 cents on May 25, 2009. Folks, that's a four bagger.

Yet QUC remained off most radar screens while a financing totaling $1.5 million was completed in late June. Then Mr. Dines performed his magic on Quest in early July and the stock immediately turned over large volumes and started to take off. The company's advanced project at **Strange Lake** in northeastern Quebec attracted investors and the discovery of a new zone of mineralization was a catalyst in September.

Quest Uranium is the proverbial grand slam in less than a year. The one-year chart shows the meteoric rise in Quest, the REE sector's 40% market correction in October, uptrend with spikes on positive news thru the New Year, and general decline in Q1 2010. Its 52 week range is 4 cents to $4.14 and the 30 day high-low is $3.05 to $2.50. It has been building a base at $2.50-$3.00 on low- moderate volumes for the past five months.

Average volume for the past year is about 900,000 shares per week giving the stock good liquidity with 40.8 million shares outstanding and 49.1 million fully diluted. Included in the mix are 2.6 million 40 cent warrants expiring in June of this year with 190,000 warrants at $2.30 and 1.5 million out-of-the-money warrants at $3.25 expiring in April 2011. Quest has 4.0 million options ranging from 10 cents to $3.56 which expire from 2013 to 2020. Insiders, family and friends control 7.7%, Cliffs Natural Resources owns 10.3%, and institutions 7.7%, giving over 74% in the retail float and strong trading volumes. Market capitalization is about $110 million and current working capital is projected at over $5.0 million. The company projects a budget of $6.5 million for 2010 and will go to the market for an equity financing this year.

Quest Uranium Corporation was spawned in 2008 with the uranium and rare earth element projects from former Northern Ontario iron-chromite explorer Freewest Resources. Freewest was recently sold to integrated steel giant Cliffs Natural Resources and its former leader Mackenzie Watson is Chairman of the Board of Quest. Mac has a long and successful career as a geologist and businessman. CEO/President and geologist Peter Cashin is the driving force for Quest and its Strange Lake and Misery Lake REE projects.

One of the items I like about Quest is that the exploration team is listed ahead of the management team on its website. Now isn't that refreshing? This is a company that realizes geologists in the field and a "boot leather and drilling" philosophy lead to project success and shareholder rewards.

Quest has a crack technical team of geologists including Pierre Guay, Bertrand Taquet, and Patrick Collins. The first two geos have 20+ years of experience in the far north of eastern Canada and track records of success. I was duly impressed with the team's work on my field visit to their flagship REE project at Strange Lake, northeastern Quebec in late summer 2009.

Quest Uranium's Geological Team at Strange Lake, northeastern Quebec

The trip to Strange Lake and back was *una aventura* to say the least. It was one of those multiple companies, projects, commodities, and many city tours that I take during a particular region's field season. This one included something like 19 plane and four helicopter flights, a train ride, an unscheduled bus ride, a ferry ride, 13 hotels, 14 cities, uranium, gold, and REE projects, and five business days in Toronto over the course of three weeks. Whew!

Perhaps the most difficult part of these crazy tours is packing and unpacking my bags that include a business suit and accessory attire for the requisite big city financial meetings, my field gear, clothing for the high desert, blazing sun, and 40C, clothing for the boreal barrens, rain, snow, and -10C, and of course my essentials: A couple of fishing poles.

Did I neglect to mention my trip including fishing the Wind River of Wyoming, Hell's Canyon of the Snake River, the George River, Quebec, and Niagara Gorge below the Falls? Folks, this job has some very nice fringe benefits.

The Quest Uranium portion of this trip started with how to get there from bum-f*** nowhere, well actually western Idaho. Over the course of three days I flew from Lewiston, Seattle, Salt Lake City, Detroit, Montreal, and Sept-Iles in route to Strange Lake. It went quite smoothly except the four hours to Strange Lake in a single Otter was not exactly a "sit back, relax, and enjoy your flight" experience. However, I must say I've never taken a plane ride that even approached that moronic bit of airline-speak.

We flew to the company's 2009 camp at the George River Lodge, arriving at midday in time for lunch, review of the flagship project by CEO Peter Cashin and Chief Geologist Pierre Guay and a core exam of the Main Zone and newly discovered B-Zone.

It was evident from the core exam that the B-Zone has big potential since it is largely covered by glacial till and is not deeply eroded like the Main Zone. The alteration and mineralization are preserved and much thicker than intercepts in the main zone.

I was even able to get a little fishing in from the lake shore before dinner and caught and released a nice 13 inch speckled trout.

Analysts and writers spent the evening in presentations by the company's geologists reviewing and discussing the Strange Lake project. It lasted a little too late and, exhausted, we plodded off to our beds for too few hours of sleep. Typical of the Canadian maritime climate, a huge northeaster roared in overnight and was not conducive to a restful repose. We awoke to sleet and gale force winds with helicopter and float plane rides looming.

The first stop was at Strange Lake's Main Zone. We examined the outcrop discovery, the area of historic and Quest's Main Zone drilling, and then flew to the newly discovered B-Zone outcrops. Led by geologist Bertrand Taquet, we traced the zone on surface for over a kilometer and were duly impressed by

the prospecting ability of this experienced geologist. The walk ended at the drill, which was testing below a historic trench. Seeking shelter from the storm, the group huddled together behind the drill doghouse and a few glacial boulders and waited for the helicopter to shuttle us back to camp.

Following a hot lunch in a warm environment, we loaded into two single Otters, one with all the geologists and a couple of hangers-on and the other with the CFA's and non-technical writers, and flew in a bad squall 120 km south to Quest's **Misery Lake** project. Our experienced pilot landed on the lake while the other decided to turn back. Little wonder as the chop on the water was so bad our pilot could not turn the plane around without flipping us over. So he backed up over a kilometer to a landing on the beach. It was not this guy's first rodeo.

The hearty geologists and even financier Jeff Phillips and writer John Kaiser bailed out and hiked about half a kilometer thru the marsh to yet another recent REE discovery. We examined the series of outcrops, speculated on their origin and discussed their significance, then faced the stinging sleet head on and scurried back to our refuge. Once all were gathered safely, we waited about 30 minutes while the pilot got a weather report over the radio. There was a brief lull in the wind when he decided to make the run and we were off the lake. In less than an hour we were back in camp and besides being wet and cold, were none the worse for wear. A long, steaming hot shower certainly was welcomed.

After another great dinner from our Quebecois chefs, the wine flowed, and discussion and debate ensued. Then along with a nightcap, the team's geologists presented recent work on new targets in the region and exploration plans for the coming year.

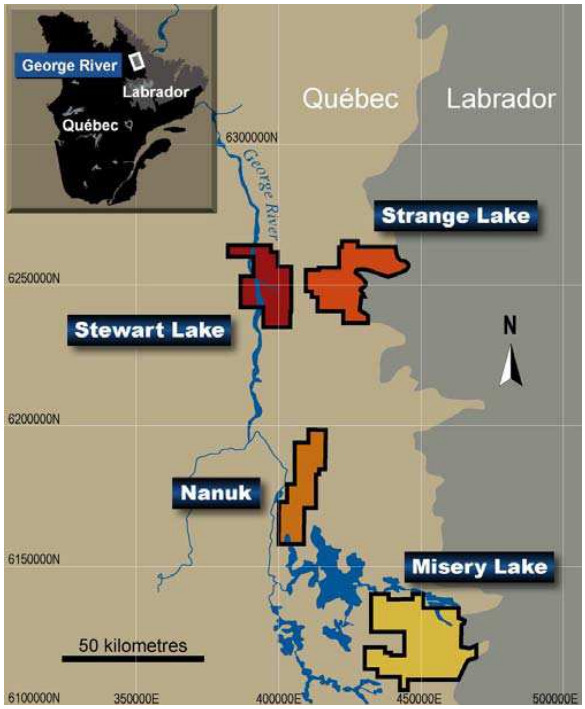
The next morning dawned gray and cold with snow on the ground and no break in the weather. In fact the winds were even stronger. The normal four hour float plane ride proved eventful. We landed in Schefferville for fuel and that turned into a one and a half hour delay while our savvy pilot repeatedly checked the radar waiting for a break in the storm. Finally he decided to go.

We flew a meandering route, at low altitude, and always over lakes all the way to Sept-Iles. Everyone was a little pale when we landed seven hours after departing. I swear that Jeff Phillips, who was riding shotgun, came off the plane with his big bald dome as white as a KKK hood (I know folks, not politically correct but damn true). We barely made our connecting flights to Montreal but no worries, I was ensconced in my Toronto hotel before room service closed down.

Mac Watson, one of the most experienced geologists in this part of the world, says it was the worst plane ride he has ever experienced. Personally I can say it was the longest of the bad ones, although there have been a couple in the high Peruvian Andes of Peru that unnerved me more.

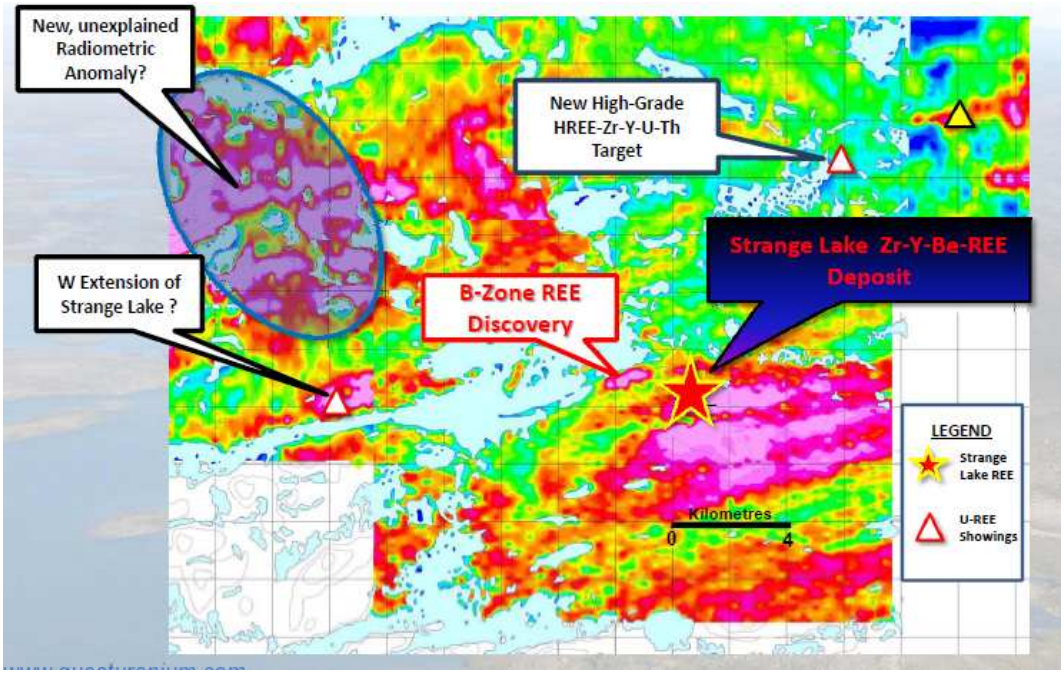
That concludes the travelogue portion of this narrative; now let's pound on some rocks.

The Strange Lake and Misery Lake projects are in the George River belt of northeastern Quebec and northwestern Labrador. Strange Lake is 175 km northeast of Schefferville, Quebec and 125 km west of Voisey's Bay, Labrador:



Strange Lake and Misery Lake REE Projects, Quebec and Labrador

The 54,000 ha property straddles the Quebec and Labrador border and an REE-zirconium-yttrium-niobium-beryllium deposit discovered by Iron Ore Company of Canada in the late 1970's. It has a historical resource estimate of 52 million tonnes of 1.30% Total Rare Earth Oxides (TREO), 3.25% ZrO_2, 0.56% Nb_2O_5, 0.66% Y_2O_3, and 0.12% BeO. What make this deposit especially interesting are its high percentages of heavy rare earth elements (HREEs), which are particularly scarce, in high demand, and have much higher unit values than light rare earths (LREEs). In 2009 Quest tested the Quebec side of this Main Zone deposit with 30 shallow core holes totaling 1800 m that confirmed historic drilling and expanded its strike length and depth.



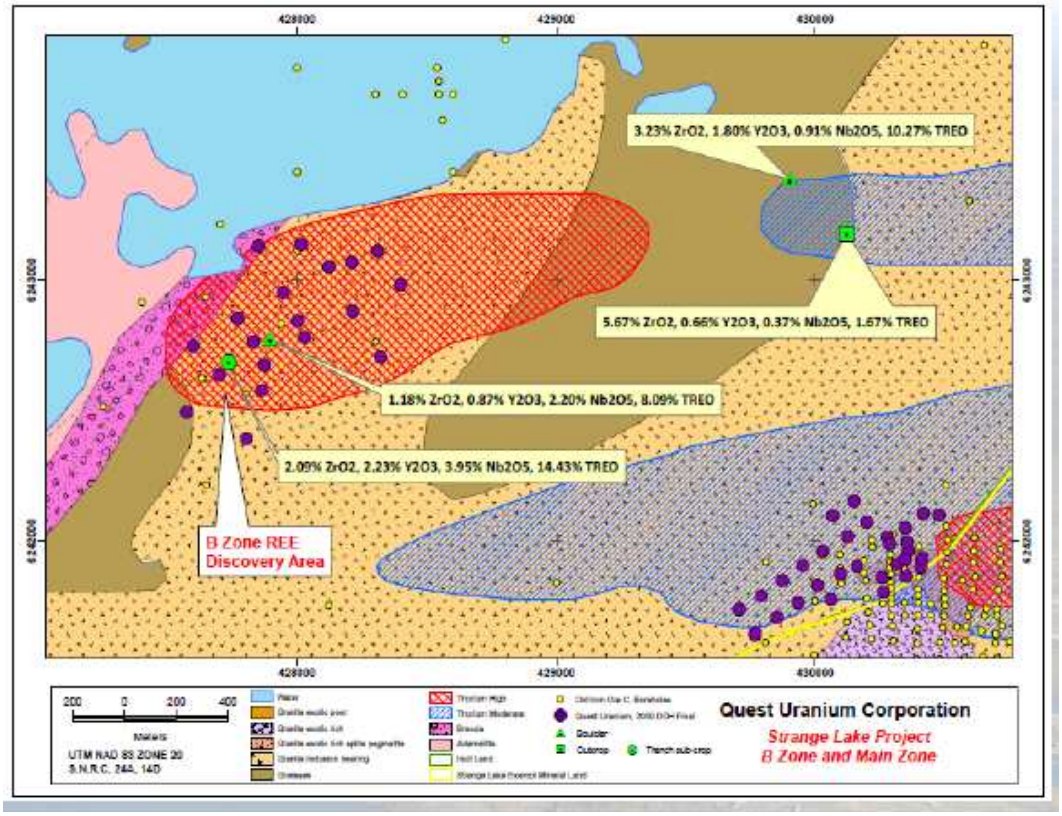
Strange Lake REE Mineralization: B Zone, Main Zone, and Other Targets

In 2008 Quest geologists compiled previous exploration work to identify new uranium and REE targets in the project area. They identified an aeromagnetic target about three km northwest of the Strange Lake deposit. Historical drilling over the area showed IOC had intersected up to 60 m of mineralization at the western margin of the anomaly but did not follow up on its initial work.

In early summer 2009, the B-Zone REE deposit was discovered by outcrop mapping and prospecting with a hand-held Niton spectrometer. It is coincident with a two km-long magnetic anomaly and has been traced in surface outcrop over a strike length of 1.7 km and minimum width of 350 m.

Shallow drilling in the late summer and fall 2009 on the western half of the geophysical target traced the zone for 1.1 km along strike, 500-600 m in width, and 70-135 m depth. All holes were stopped in mineralization due to limitations of the drill equipment and were cased and cemented for deepening in 2010. Five holes totaling 340 m were drilled to obtain a one tonne bulk sample for metallurgical tests.

Multiple, high-grade intersections of between 1.05% and 2.52% TREO + Y oxide over widths of six to 66 m occur in all 19 holes totaling 2100 m that were drilled into the zone. The higher values are within a thicker 70 to135 m mineralized envelope grading between 0.90-1.03%. Most importantly, percentages of the heavy rare earth element oxides (HREO) are very high, representing 40-60% of the assay values. Strong Zr-Nb-Hf-Be oxide values occur with the REE intercepts and have potential to contribute resources to the mineralized zone.

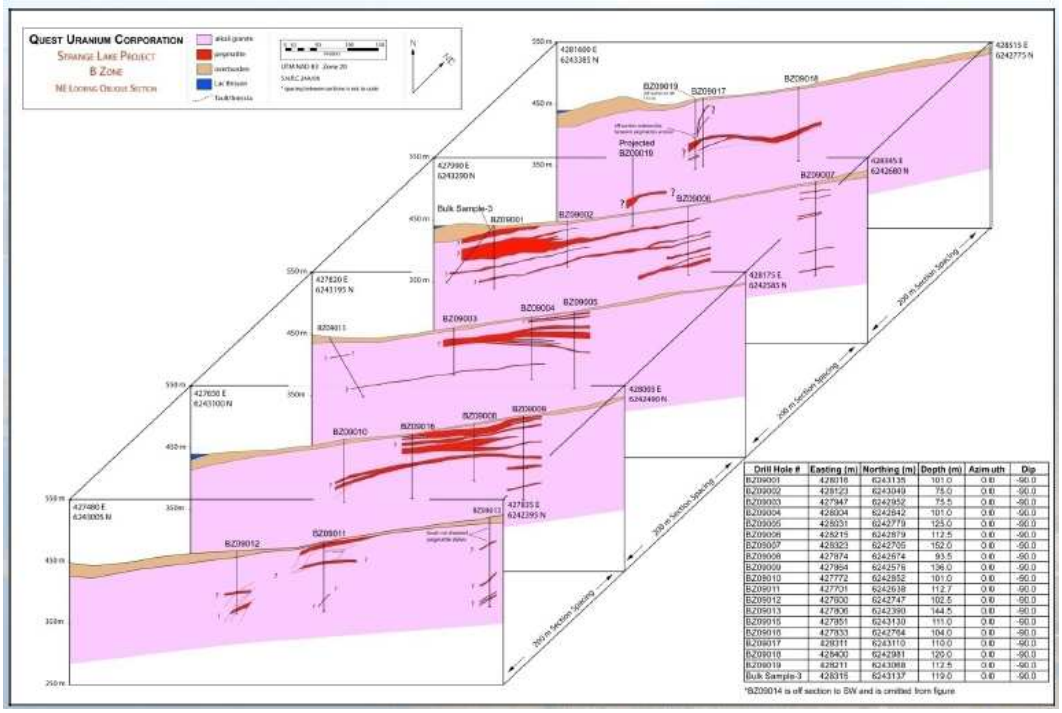


B-Zone and Main Zone Geology, Drill Holes, and Mineralization

Best drill results are listed below:

Drill Hole	From (m)	To (m)	Length (m)	%TREO	%HREO
BZ09001	5.10	16.0	10.9	1.78	50.0
BZ09002	66.0	75.0	9.0	1.98	59.8
BZ09003	19.0	31.0	12.0	2.18	58.5
BZ09008	4.0	93.5	98.5	1.11	42.4
BZ09011	2.0	68.0	66.0	1.16	40.8
BZ09016	15.1	53.6	38.5	1.23	50.4
BZ09017	65.5	82.3	16.8	1.45	43.4
BZ09019	63.3	97.4	34.1	1.27	45.2

Attached is a series of cross-sections for the western half of the B-Zone where 2009 drill tests occurred:



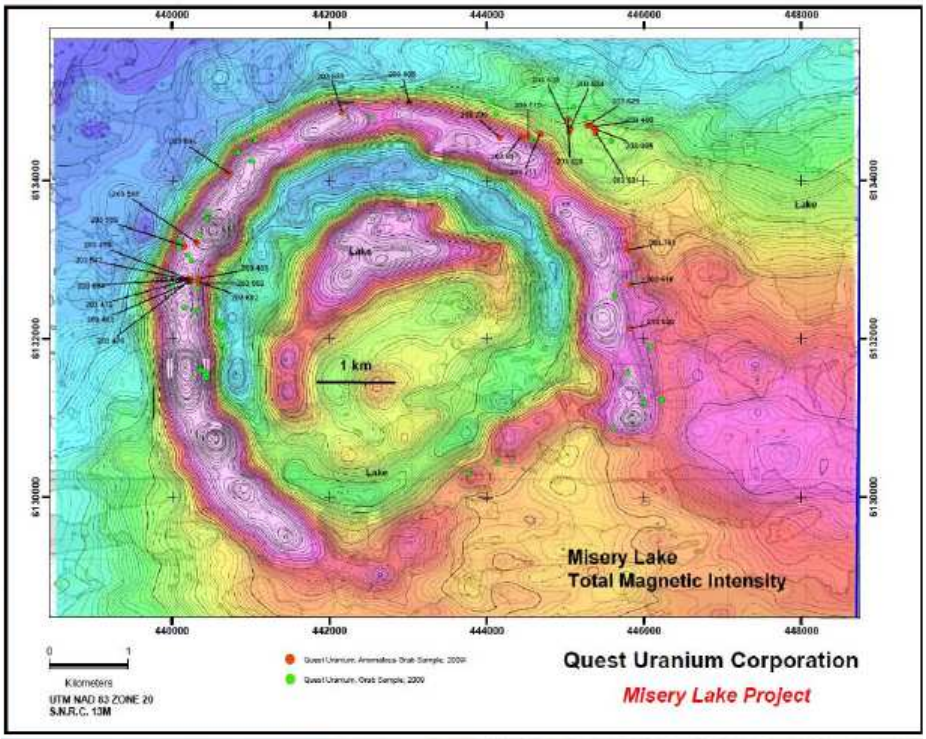
Geology is permissive for the B-Zone deposit to grow much larger:

- It is hosted by a flat-lying cupola of altered pegmatite overlying a differentiated granite intrusion.
- The magnetic and radiometric anomaly has been shown by recent drilling to be coincident with strong alteration and mineralization.
- The eastern half of the geophysical anomaly has not been tested by drilling.
- Drilling in 2009 was limited to 90-135 m because the drill was not capable of going deeper.
- It remains open in all directions, at depth, and down-plunge to the northeast.
- With its present shallow, flat-lying geometry, the B-Zone is envisioned as an open-pit deposit.

In addition, 2009 exploration resulted in the discovery of new areas of surface mineralization at B-East, A, SLG, and Apurna Lake.

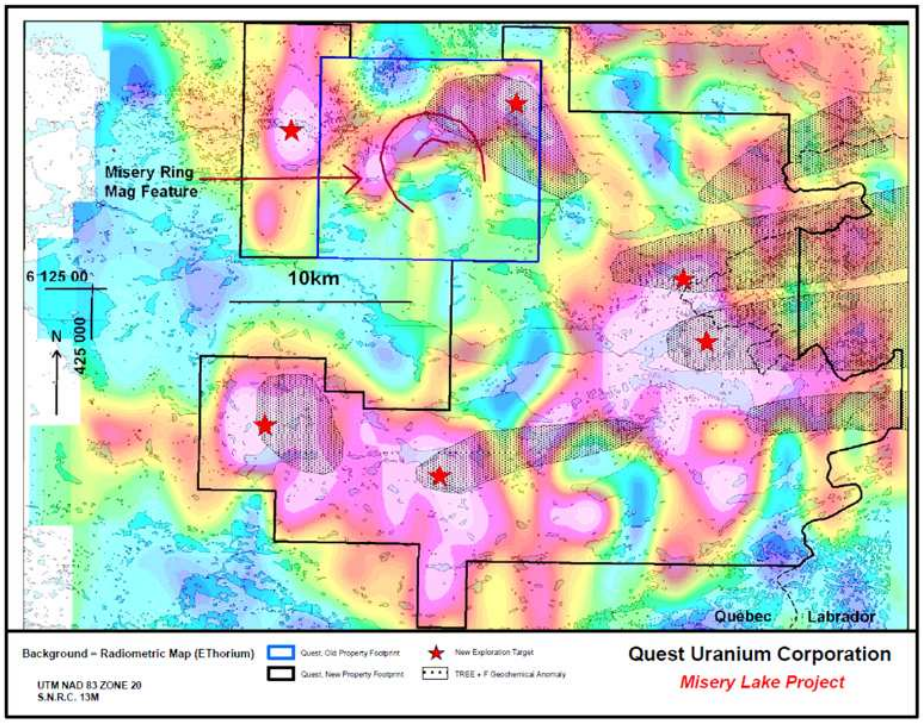
Another significant project for Quest is **Misery Lake,** comprising 79,400 ha and located about 120 km south of Strange Lake. In November 2009 QUC announced that reconnaissance evaluation of a large, concentric magnetic feature led to the discovery of a rare earth-bearing alkali intrusive body. It is a ring complex described as a six km diameter, compositionally-zoned, ultramafic to granitic intrusion. Grab sampling of the magnetic ring feature returned values of up to 8.56% TREO + yttrium oxide, 42.3% iron oxide, 7.12% phosphate, 4.85% titanium oxide, 3.05% zirconium oxide, and 2.72% niobium oxide.

Geology is analogous to the Lovozero Peralkaline Complex in Russia, which is that country's primary producing area for rare earths, niobium, tantalum, phosphate and zirconium. Lovozero reportedly produces about 10,000 tonnes of rare earth elements per year, or about 8% of annual world production.



Aeromagnetic and Sample Map of the Misery Lake Project

Reconnaissance exploration has identified six other targets in the Misery Lake area with aeromagnetic, radiometric, lake bottom, and stream sediment anomalies and Quest has staked ground to cover these potential occurrences:



Misery Lake Exploration Targets

Quest Uranium Corporation currently is trading in a range that is within its four month low. An accelerated program of resource estimation, metallurgical testing and mineralogical studies of the deposit is currently advancing at rapid pace. There are four catalysts on the short term horizon that could increase the company's share price significantly:

- The company expects to release a 43-101 inferred resource estimate from Wardrop Engineering for the B-Zone rare earth deposit in early April.

- Metallurgical testing of a one-tonne bulk sample of B-Zone mineralization is being processed by Hazen Research and results are expected in May.

- A scoping study (preliminary economic assessment in 43-101 speak) of B-Zone economics will commence upon receipt of the above two reports and should be forthcoming in mid June.

- A 15,000 m drilling program including delineation and step-out holes on the B-Zone and initial testing of other project targets is expected to commence in June. The exploration potential of Strange Lake is excellent.

Quest's Strange Lake deposit has the following advantages compared to other rare earth elements deposits in Canada:

- It is strongly enriched in valuable heavy rare earths and has a spread of both lights and heavies.

- It is shallow, flat-lying, and if an economic deposit is developed, likely would be an open-pit mine.

- It is in mining friendly Quebec and the permit process likely will be more straight forward and timely than in other Canadian provinces.

In addition to pending company news, the rare earth element sector has recent and upcoming catalysts including a Congressional committee hearing, a bill introduced in Congress calling for an REE strategic minerals stockpile, a report due from the Department of Defense on the USA's supply chain vulnerability, and the anticipated IPO of Molycorp, LLC, owner of North America's premier mine, mill, processing, and research facility since 1952.

That said, there is always significant risk inherent in the junior resource sector. Market capitalizations for good, bad, and butt-ugly REE companies have soared over the past ten months. As with all mineral deposits, the vast majority will fail to ever make profitable mines.

The REE bubble is fueled by speculation that demand will increase year over year in this decade, the Chinese will continue to cut exports and set economic policies that will consolidate their monopoly, the United States will institute policies that encourage development of the green energy and high technology sectors, a rare earth mine-to-market capability, and a strategic minerals stockpile, and government and major industrials in North American, Europe, and eastern Asia will support mine development and secure off-take supplies.

I think all the above will happen and that is why I was, am, and will remain bullish on a very few select companies in the sector.

Quest Uranium carries significant exploration, metallurgical process, location, and environmental risk. However, it is trading in a cyclically low range. With anticipated company and industry news in the short term, I opine that the company may have significant upside to its current share price and market capitalization. Volumes have been low to moderate for the past five months and from a contrarian viewpoint, this could be an opportune time to buy on weakness.

I am a shareholder of Quest Uranium at a lower price than current trades and it is a paying sponsor of my website. I am strongly biased about the future upside of QUC.

Do your own due diligence and see if the risk/reward profile of Quest Uranium Corporation meets your speculative criteria.

Ciao for now,

Mickey Fulp
Mercenary Geologist

The **Mercenary Geologist Michael S. "Mickey" Fulp** 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 30 years experience as an exploration geologist 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 has worked for junior explorers, major mining companies, private companies, and investors as a consulting economic geologist for the past 22 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 throughout the mining and exploration community due to his ongoing work as an analyst, newsletter writer, and speaker.

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