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**Mercenary Alert: The Quest is Next** 

## A Special Alert Musing from Mickey the Mercenary Geologist

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I have written and spoken extensively about junior rare earth explorers that are considered "The Cream of the Crop" (<u>REE Review</u>, <u>July 21, 2010</u>). In the early fall of 2010, I noted how these four companies' valuations tracked the share price movement of Molycorp (MCP.NYSE) in a piece called "Molycorp and the Minions" (<u>REE Review</u>, October, 2010).

Since launching my <u>REE Review</u> series last summer, I have posted 15 musings on rare earth explorers. Molycorp's public listing late last July was a huge catalyst for the entire sector and during the subsequent nine months, all legitimate rare earth element companies and most of the numerous fly-by-nights have progressed to significantly higher share prices. Market valuations are now approaching all-time highs.

The uncanny one to one correlations have gone by the wayside in succeeding months. However, Molycorp, with a \$5.6 billion market capitalization, is still the 800 pound gorilla on the block; witness its recent acquisition of the Silmet rare metals refining, separation, and processing complex in Estonia (Mercenary Interview, April 10, 2011).

Generally as Molycorp goes, so go the *best of the rest* in the REE sector.

Two junior companies, Rare Element Resources (REE.AMEX) and Avalon Rare Metals have gained AMEX listings in the past few months. The American listings have led to markedly increased liquidity, much higher share prices, and extreme volatility as American institutional funds, brokers, and retail investors have easier access to trade the stocks. Both commonly trade five to ten times their daily volumes on the AMEX versus the TSX.

And Ouest is Next.

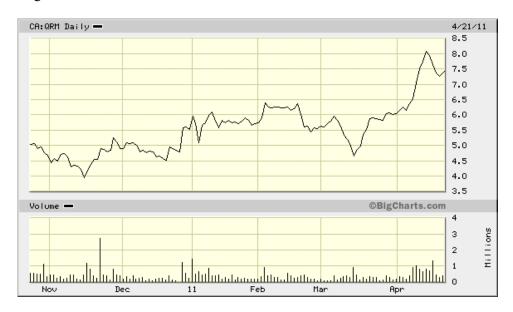
Quest Rare Minerals Ltd (QRM.V) will be the next rare earth element junior to achieve an AMEX listing. I expect it to happen within the next couple of weeks and that is the reason for today's Mercenary Alert, available to subscribers only.

If you look closely at the trading histories of its two REE brethren, market capitalizations increased significantly following AMEX listing. Rare Element had a steep four month climb from US\$3.21 that

culminated in an all high time of US\$17.92 on the first trading day of 2011. Avalon was at US\$4.47 on its first listed day of December 22 and reached its all-time high of US\$10.11 a week ago.

Quest Rare Minerals also has had quite a run with several recent catalysts fueling its uptick, including a new larger and higher grade resource estimate, metallurgical advances, and additions to staff for its upcoming pre-feasibility study at Strange Lake.

Here's the six month chart showing its closing low of \$3.95 on November 15 and an all-time high of \$8.30 a week ago:



That said, Quest has lagged behind its contemporaries with a current market capitalization of about \$435 million while Rare Element rings in at US\$580 million. Its closest peer, Avalon, has a market valuation nearly double at US\$865 million.

Avalon is admittedly a year or two ahead of Quest with its Thor Lake evaluation at the feasibility stage. However, at this juncture Quest's Strange Lake appears to be robustly economic while Avalon's deposit is burdened by huge capital requirements and is marginally economic.

Quest Rare Minerals is now my top pick in the rare earth element sector. With the Strange Lake deposit growing larger and a high-grade shallow core, called the Pegmatite Spine, currently being drilled to the north on winter ice, I expect new drill results will be positive.

QRM's pending AMEX listing will certainly add liquidity and volatility to its stock price. But if peer comparisons are valid, it will be an important catalyst for a substantial rise in price and market capitalization.

Based on Rare Element Resources' experience, there will be an increase in short positions as American speculators play both the long and short sides of the trade and I expect significant short attacks. But like REE.AMEX, Quest has a tight share structure, a committed core of insiders, family, and friends, and a strong and savvy investment group that financed the company upon its metamorphosis from uranium to rare earth element explorer in Q2 2009.

I initiated coverage of Quest Rare Minerals a little more than a year ago at \$2.85 (Mercenary Musing, March, 2010), so subscribers who acted immediately have 260% gains. I think Quest has considerable upside as Strange Lake continues to develop and it gets listed on the New York exchange.

Please note that I was a participant in the aforementioned private placement in mid 2009 and Quest is a paying sponsor of my website. I have substantial skin in this game and my bias is obvious. As a diligent speculator, you must always do your own research before making trading decisions.

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 over 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 23 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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