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SPECIAL REPORT ON:
Quest Rare Minerals

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Quest Rare Minerals

Symbol QRM, is a Montreal based exploration and developmental mining company that trades on the Toronto Stock Exchange and the New York Stock Exchange. In our opinion, it may be an exceptionally undervalued “asset play” in today’s difficult market for exploration stocks. Periods of severe price weakness often create excellent investment opportunities for value oriented investors as bear markets are a cyclical occurrence and historically change again for the better.

Largest Rare Earth Deposits

The company is focusing on the development of its flagship Strange Lake rare earth project located in Quebec. Trading under the symbol “QRM”, Quest has one of the world’s largest and highest grade heavy rare earth deposits located in the mining friendly Quebec. Quest has already identified a total resource of over 492 million tonnes containing an estimate of 4.4 million tons of heavy rare earths. In another update, we will report in greater detail on the rare earth elements market. We feel it is time for an overview due to the decline in Quest’s price. In our opinion, Quest has declined to price levels that could be considered as exceptionally undervalued.

What are Rare Earths?

What are “rare earth elements” and what is their significance? Rare earth elements are seventeen chemical elements in the periodic table. While referred to as “rare earths elements,” they are in fact not that rare but difficult to find in sufficient quantities to justify economic mining development and satisfy world demand. With rare earths, the gross amounts employed in any process are small on a volume basis, yet absolutely essential. They are employed as critical components in numerous industrial technologies and the “rare earth elements” themselves are virtually without substitutes.

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COMPANY LOCATION

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COMPANY TRADING

Symbol: QRM
Trading on: TSX
NYSE



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A Different Type of Analysis

As mining and particularly mining exploration stocks decline in price due to market conditions or for reasons such as failures to achieve exploration or production schedules or other reasons, they often drop to price levels that are exceptionally undervalued based upon what companies own in reserves and resources. Reserves valuations should be the key focus during periods comparable to this! The timing sequence for the normal analysis such as sales, profits or “cash flow” is temporarily “put on the shelf” for this analysis. This sole purpose is to determine a conservative value of the company’s “in ground assets” which in this case are Quest’s large resource containing rare earth elements. It is basically a conservative gauge for valuing a company.

Return to reasonable valuations

Five years ago, a major theme of the mining markets was “rare earth elements.” While the growing need for the rare earth elements is undeniable, the movement up in the prices of the rare earth stocks and the rare earth elements themselves at the time was excessive. Today, after the stocks and the prices of the rare earth elements have come down and returned to “earth,” our analysis suggests that now is the time to pay serious attention to some of the companies. The key questions are “what and how much does the company have and would production be economically realistic?”

Supplies are not sufficient

Today, China owns and controls the lion’s share of the world’s rare earth elements. We emphasize that rare earths are necessary and not a passing investment phase. Moreover, the North American Governments need ready access to sufficient supplies of these elements as they are extremely important to national security. Above all, they are not readily available. It is not a matter of simply discovering them through exploration. The key word is “rare” in adequate size.

Some key points to consider:

1. Quest has the world's largest and highest grade heavy rare earth project capable of meeting North America's long-term supply needs.
2. Quest's Strange Lake deposit is at surface and accessible for a low-cost open pit mine operation.
3. Quest has a solid balance sheet withr \$2.7 million in cash with a total of \$10 million including credits. Its asset value per share in Rare Earth Elements is enormous.
4. Quest's Strange Lake deposit total resource contains 4.4 million tonnes of heavy rare earth . Quest has 67.6 million shares outstanding, thus 0.065 tonnes of heavy rare earth elements per share. If we allow a small percentage of the average price of heavy rare earth elements, for this we will use \$2 per tonne (keep in mind that rare earth elements sell for far more, multiple times \$2) we have over \$13 per share in assets. In doing this valuation, note well that three of Quest's rare earths sell from \$20 per kilogram; \$50 per kilogram and \$1000 per kilogram. Thus we feel that we are being quite conservative using a value of \$2 per tonne. With the stock in the .50 cent to .60 cent range, our analysis suggests that Quest is exceptionally undervalued.

Value versus later cash flow

The schedule for eventual production is five years out which in our view is why the price has declined from its price of over \$8 a share three years ago to .63 cents. Long periods before production and sales cause stocks to be extremely volatile in price. The stock market focuses primarily on cash flow and sales, so until they commence, the price of any junior mining company is particularly vulnerable. So, value investors have the opportunity to accumulate during periods when stocks wither. Down from the \$8.80 per share level four years ago, at the current .57 cents level, it merits attention.

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