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REE Review: The Next Generation: Medallion Resources Ltd

A Monday Morning Musing from Mickey the Mercenary Geologist

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February 28, 2011

I have written and spoken extensively about the rare earth elements and junior REE exploration stocks since June 2007. I was one of the first writers to go public with my analysis in early September 2008 when I initiated coverage on two companies, Rare Element Resources and Avalon Rare Metals. Both have rewarded investors with phenomenal returns over the past two and a half years.

The markets for these metals and the junior resource stocks exploring for them was quiet until May 2009 when Mr. Dines woke up speculative resource investors by proclaiming himself "The Original Rare Earth Element Bug". That missive combined with cheap financings of worthy juniors, Chinese export restrictions, and increased market awareness made REEs the flavor of the year in 2009. With the usual fits and starts, ups and downs, and volatility of the blow up phase of any bubble, the rare earth element sector forged ahead in 2010 with valuations increasing exponentially.

I added coverage of two more companies in the spring of 2010, Quest Rare Minerals and Tasman Metals Ltd, and introduced a new product to my musings called **The Mercenary Geologist's REE Review** in August. Since that time, I have posted 13 opinions; all can be accessed thru the above link.

A common theme in many of these mini-musings is the "Cream of the Crop", in which I concentrate on the best North American-headquartered junior exploration companies in REE space. In my opinion, there are four companies with the proper combination of share structure, people, and flagship projects worthy of speculation for ultimate success in the period 2011-2016. They are the most likely to develop deposits, produce from mines, merge, acquire, or get bought out, secure business combinations or strategic alliances, and/or procure off-take contracts for rare earth concentrates.

These four stocks now trade in the range of $5 to $15. In this purely speculative commodity play, their current valuations have substantial downside risk. Three stocks, **Quest Rare Minerals (QRM.V), Rare Element Resources (REE.AMEX), and Tasman Metals Ltd (TSM.V)** are long term plays for me and I think they have strong upside. I am currently divesting of the fourth company on price strength and moving on to a new idea.

We have good knowledge of which deposits are best and the exploration companies that will succeed in the next five to six years. But now it's time to go on the make for ones that are queuing up to dance at the ball in five to 10 years. My new idea is a company that could be a leader in the "Next Generation" of

successful rare earth element companies. “Next Generation” companies are penny stocks that might achieve something big in the period 2016-2021 or perhaps leap frog their many siblings that pretend to be princes now but actually have green skin beneath their suits and are likely to croak:

Beware of Frogs Masquerading as Princes

My new idea is a company that I bought on the open market in late summer, **Medallion Resources (MDL.V)**; perhaps it will garner your attention, too. Medallion has 44.5 million shares outstanding, 57.7 million fully diluted, a current share price of 35 cents, $3.6 million in working capital, and a $16 million market capitalization. Insiders hold 8% but more importantly 35% are “closely held”. Institutions account for about 15% giving a public retail float of 50 % or over 22 million shares. A concern is 10.2 million in-the-money warrants that could overhang the market if the company does not progress and achieve much higher valuations. They average 33 cents, most range between 25 to 40 cents, and most expire in mid-late 2013.

MDL is very liquid with average daily trading over 400,000 shares for the past six months. The 52 week high and low is 81 cents and 10 cents respectively. The 52 week chart is shown below:

The company was trading in a range of 20 to 25 cents prior to the flash crash and Greek crisis in late May to early July when it dipped as low as 10 cents. It started to move as the rare earth element sector rebounded in early September when positive analyst reports on Molycorp (MCP.NYSE) began driving the entire sector higher. MDL followed the various up- and down-dips of MCP to an all-time high of 43 cents in late September before a brief sector correction. It then went parabolic reaching an intra-day high of 81 cents on October 21 before dropping to 38 cents on November 16. It has traded from the low 40s to mid 50s since then, building a strong base on high volumes. Over the past two days, MDL has dipped into the mid 30 cent range on sector-wide weakness and is trading near its 200 day moving average. Medallion recently was listed on the US' OTCQX market, which will give greater exposure to American investors.

Medallion Resources meets my criteria on share structure but it must be careful to manage the price and size of future financings to preserve a tightly held structure.

MDL's people are equally impressive. The Chairman of the Board and CEO is Bill Bird, a Ph.D. geologist with long-lived experience in the rare earth element business. He served as President of Rare Element Resources before moving to Medallion prior to the boom in REEs.

The company's largest individual shareholder is recently appointed President, Don Lay. I first met Don in September after becoming a shareholder and have since spent considerable time in discussions with him, Bill, and Corporate Communications Director Erica Bearss. Management has plenty of *skin in the game* and that's always a big plus.

Medallion Resources has a strong technical advisory board including Mark Brown, CFO of Rare Element Resources, Patrick Wong, founder and ex-officer of Dacha Strategic Metals, and geologists Dr. Jim Clark, Dr. Tony Mariano, Dr. Dennis Lapoint, Harmon Keyser, Bob Roe, and Dr. David Shaw.

Jim and Tony are experts on rare earth element mineralogy, geologist and helicopter pilot Harmon has worked extensively on rare metal deposits, and Dennis is an expert in laterite terranes. I know these four men. David Shaw is an expert in South America and Bob Roe is a mineral sands expert. Medallion's management and technical teams certainly meet my criteria for people.

Drs. Mariano, Bird, and Clark: REE Experts at Eden Lake, Manitoba

Although Medallion has two early stage rare earth projects that I will discuss later on, I chose to speculate in Medallion Resources in the late summer of 2010 and to cover the company at this juncture because of its on-going initiative to acquire other projects.

In early February I gave a keynote presentation at Murdock Capital Partners' rare earth element investor symposium in New York City (**Evaluation of REE Companies**). Medallion President Don Lay also presented at the event and spoke on the company's efforts to bring forward-thinking ideas to the REE sector and secure new projects (**Medallion Resources Ltd**).

Medallion's thesis is that most junior rare earth element explorers are ignoring two critical needs for success in the sector:

- Fast track to production by 2015 as Chinese exports decrease and worldwide demand rises.
- Low cost production of REEs thru large tonnage economies of scale and simple extractive metallurgy.

To achieve these goals the company is pursuing two types of deposits:

- REE-bearing heavy mineral sands produced nearly all of the world's supply from the first commercial applications in the early 1900s until Molycorp put Mountain Pass in production in the early 1950s. Placer mines were operated in North Carolina, India, Brazil, Malaysia, Madagascar, and Mozambique and recovered monazite as the world's sole source of REEs:

1906 Postcard of British Monazite Mine (Photo Courtesy of University of North Carolina)

Modern-day heavy mineral sands are exploited mainly for titanium and zirconium minerals. In the recent past, monazite recovery and REE extraction was a by-product of these large dredge, dragline, or truck and shovel operations. There has been little world production of monazite from these mines since India ceased exports seven years ago.

Heavy Mineral Sands Mine in Southern India

That said, on February 18 Japan and India signed an agreement gradually eliminating tariffs over the next decade. The treaty included a strategic alliance for Toyota to secure 6000 tonnes per annum of rare earth element chlorides from state-owned India Rare Earths Limited. The intent is to recover monazite from the

waste tails of heavy mineral sands operations currently mined for ilmenite, rutile, leucoxene, zircon, and/or garnet.

Monazite is REE-rich, generally containing about 60% rare earth oxides. But since monazite is a thorium-bearing mineral, there are environmental concerns about disposal of radioactive thorium. Currently monazite is not recovered from heavy mineral sands operations. Therefore, it is concentrated in the waste tails after economically recoverable metals are removed. Recovering monazite would remove the radioactive component from the tails and render them more environmentally benign.

Monazite has been a commercial source of rare earth elements for over a hundred years and there are standard methods for concentrating and extracting REEs from it. Monazite and bastnaesite (the ore mineral at Mountain Pass, California and Bayan Obo, China) are the two major rare earth minerals that have been commercially processed with economic success.

At this time, the key steps in processing monazite are separating the rare earths from the thorium, which is a simple chemical procedure, and then safely disposing of the thorium. Monazite was initially mined for thorium but there is no current market. The governments of India and Brazil are interested in re-establishing thorium as a source of nuclear power and India is presently researching and developing thorium nuclear-power potential. In the past it has stockpiled thorium in anticipation of further developments in the field and may continue to do so.

Medallion Resources recognizes the potential of monazite for REEs and has targeted heavy mineral sands operations as a source for production. The company is investigating mines and hopes to enter into an off-take agreement for waste tailings from which monazite can be economically recovered.

- HREE-bearing ionic clay deposits presently are mined and known only in southern China. Here is a satellite image from one of these areas:

Google Earth Image of South China Ionic Clay HREE Deposit

The geological environment where ionic clay deposits occur is largely unknown but is likely not unique in the world. Economic geologists think they will occur elsewhere. The REE-bearing ionic clays are low grade residual deposits that are products of prolonged and intense chemical weathering, in the same manner as nickel-iron bearing laterites or aluminum-rich bauxites. However, in this particular supergene process, rare earth metals are concentrated in loosely held ionic bonds between layers in clay minerals. They are easy to process into chemical concentrates from the clays by acid extraction and precipitation.

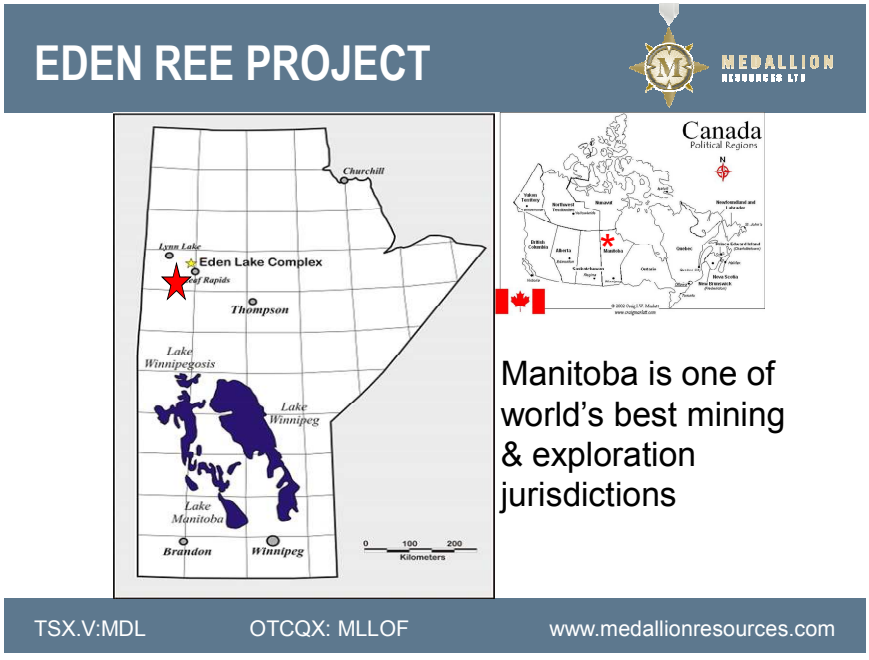
Medallion's working geological model requires a HREE-bearing host rock (i.e., peralkaline intrusion or pegmatite) that has been weathered in a tropical or subtropical monsoonal climate. The company currently is evaluating areas in South America for potential to host economic ionic clay REE deposits.

As mentioned above, the company presently has two early stage rare earth element projects:

Eden Lake is a large carbonatite and syenite complex located in northwestern Manitoba. The project is a joint venture with Rare Element Resources and Medallion can earn 65% interest within five years by paying $1.45 million, issuing 1.8 million shares, and completing a $2.25 million work program. It is subject to a 3% NSR to the original prospector with half buyable for $1.5 million.

The project comprises 3200 ha and is located in a mining-friendly jurisdiction with infrastructure relatively close at hand for northern Canada. It is 170 km from the mining center of Thompson, Manitoba, six km from a highway with boat access, and 20 km from power at Leaf Rapids.

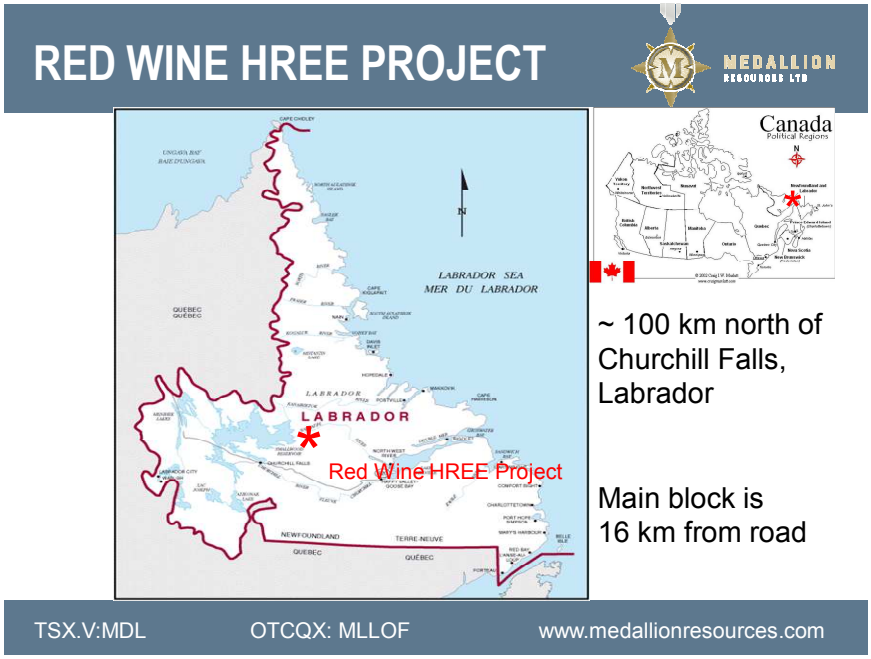
During the past field season, mapping at Eden Lake found large altered areas underlain by carbonatite, syenite, and pegmatite. A sampling program focused on altered syenite produced low grade rare earth element anomalies. The company will shift priority and assess the potential of carbonatite in its 2011 exploration program at Eden Lake.



Medallion's second project is **Red Wine** in central Labrador. It consists of 4200 ha in four claim blocks where the company is exploring for heavy rare earth elements in peralkaline intrusions. To exercise its five year option, MDL must pay $525,000, issue 1.9 million shares, and complete $400,000 in work. The property is subject to a 3% NSR to the original prospector with half available for purchase for $1.5 million.

The South Pluton, a eudialyte-bearing peralkaline intrusion, is MDL's main focus at Red Wine. Medallion's 2010 program consisted of airborne geophysics and a short reconnaissance mapping and sampling program in August. It failed to locate high eudialyte-bearing areas previously reported by Canadian government geologists and assays did not correlate with observed eudialyte-bearing rocks. News on a second prospecting phase in fall 2010 is pending.

There is a current proposal in Labrador to grant royalty rights to native groups. Some of Medallion's northern claims could be adversely affected by the proposal but the South Pluton targets are outside this area. Caribou calving season restricts ground disturbance and noise prior to July 1so the summer drill season is restricted.



In my opinion, 2010 results on Medallion Resources' reconnaissance exploration programs at Eden Lake and Red Wine were somewhat disappointing. However, the two projects are still very early stage and potential for significant discoveries remains on both.

Medallion Resources anticipates the following news flow and catalysts to occur by mid to late 2011:

- Report on final assays from Red Wine with a Phase II exploration plan and budget.
- Report on future exploration plans and Phase II budget for the Eden Lake carbonatite.
- A strategic alliance on a heavy mineral sands REE development project.

- Acquisition of a REE-bearing ionic clay deposit in South America.

- Financing of the two major acquisitions.

If Medallion can achieve these goals by mid to late 2011, it will become the fifth junior company to join my "Cream of the Crop" in rare earth element exploration and development space. It is now incumbent on MDL's management to perform in a timely and efficient manner.

With a miniscule market cap compared to its peers and assuming Medallion executes the above plan, a double of its share price in 12 months or less seems likely. Perhaps the greatest risk, as with the entire REE sector, is another collapse of the world's economy that would undercut demand for rare earth elements.

I am a shareholder of Medallion Resources Ltd and my cost basis is significantly lower than its current trading range. It also pays a fee to sponsor my website and with this musing, I am initiating coverage of the company. I have a strong vested interest in a higher stock price and am pleased to note that my opinions are biased by financial involvement with Medallion.

As a diligent lay investor, it is incumbent on you to research Medallion Resources Ltd thoroughly and decide if it meets the criteria for your speculative risk/reward profile.

Please don't rely on me. I am offering my loyal subscribers and readers this idea as a starting point to conduct due diligence. Remember that you alone are responsible for your investment decisions.

Ciao for now,

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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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