Medallion Resources Ltd.

VERTUS EQUITY RESEARCH

September 17, 2014

INITIATING REPORT

Sector View: **OUTPERFORM**

Rare Earth Explorer Pioneers New Approach to Sector

Medallion Resources Ltd (MDL:TSX.V), is a Canadian-based resource company pursuing an innovative strategy to exploit the mineral monazite, which is an abundant rare earth source readily available as a by-product of heavy-mineral-sands mining. The Company has produced a preliminary financial and engineering study for a proposed rare earth processing facility and it has established strategic financial relationships to fund the development of the facility in the Middle East.

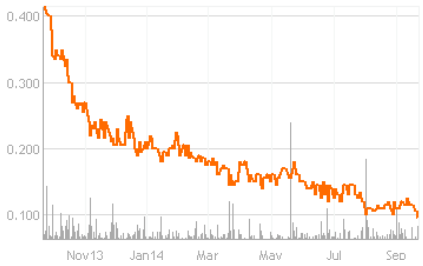
Summary Highlights

- Q1 2012 Medallion issues report by SENES consultants concluding that its planned large-scale monazite processing facility complies with all major national and international mining and environmental safety standards..
- Q2 2012 Medallion adds two new members to assist in the execution of its monazite-based rare earth strategy. A General Manager – Middle East to work on regional plant siting and finance; and a Director of Feedstock Acquisition to secure long term monazite supply agreements.
- Q4 2012 Medallion produces preliminary processing technical plans, including flow sheets and initial capital and operating financial models, for a 10,000 tonne per year monazite-based rare earth processing facility.
- Q2 2013 Medallion signs an MOU with Takamul Investment Company, a subsidiary of government-owned Oman Oil Company, to conduct studies investigating the viability of constructing and operating a monazite-based, rare earth extraction facility in the Omani industrial city of Duqm.
- Q3 2013 Medallion signs an MOU with Arab Mining Company, a Jordan-based, Pan-Arab mining-industry investment firm granting Arab Mining, for a period of six months, the exclusive right to negotiate terms to invest in a rare earth production and processing joint venture within the Arab League nations.

Company data

Price ($CAD)	$0.115
Market cap	$6.0m
Shares O/S	54.8m
52-week range	$0.095/0.43
Avg. daily volume	92,200
Enterprise value	$5.76m
Sector	Mining
Industry	Rare Earths

52-week stock chart – MDL.TSXV



Recent news

2014-09-08
Medallion announces extension of MOUs with Takamul and Arab Mining Company

2014-07-08
Medallion appoints David Shaw to Board of Directors

2014-06-04
Medallion Resources 4,666,667-share private placement

2013-12-23
Medallion renews Takamul, Arab Mining MOUs

See Appendix 3 for important disclosures and disclaimers.

Table of Contents

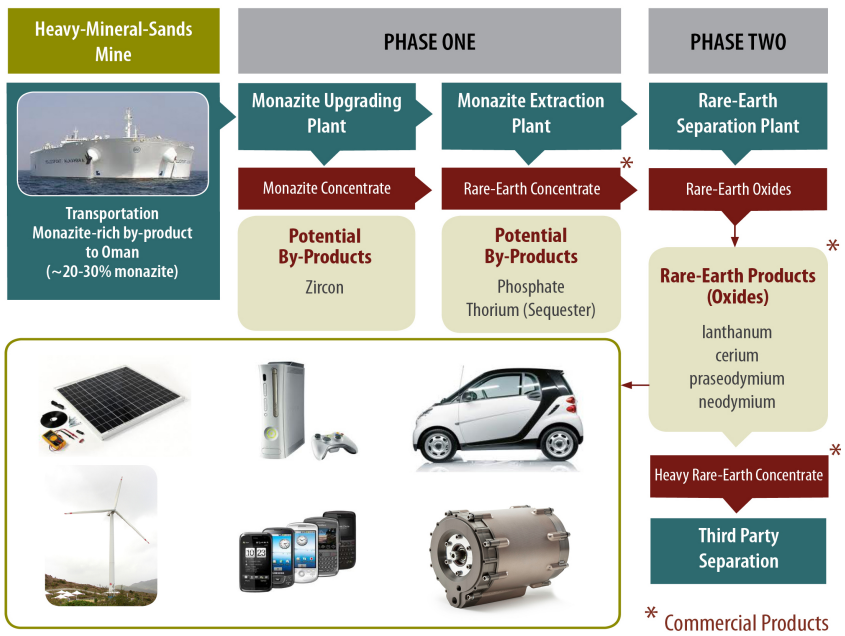
1 Company Overview & Strategy

An increasingly high-tech world has placed ever-more demands on the global supply of rare earth elements—the exotic metals essential to the functioning of everything from the catalytic converters in our cars, to the cell phones in our pockets, to the flat-screen TVs in our homes. That supply-and-demand relationship has been under serious scrutiny since China, producer of 90% of global REEs, imposed export quotas in 2010, triggering a two-year market bubble. When the crisis was averted, prices tumbled as quickly as they had risen. Of the hundred or so rare earth miners spawned during that period, only two companies have made the jump to significant operations, Molycorp, Inc. (NYSE: MCP) and Lynas Corporation Ltd. (ASX: LYC). This underlines the significant challenges facing potential rare earth producers. Primary rare earth mining operations require billion-dollar capex budgets, decade-long development schedules, and present environmental issues that can stall progress indefinitely.

"By processing the tailings piles from monazite-rich mineral sand mining operations, Medallion proposes to tap a source of high-grade monazite representing decades of ready supply..."

In Q1 2011, Medallion's management team announced a new direction for the junior rare earth explorer based on the mineral monazite – one of two rare earth minerals with a proven history of rare earth production. By processing the middling streams from monazite-rich mineral-sand-mining operations, Medallion proposes to tap a source of high-grade monazite representing decades of ready supply. The benefits of this approach are clear: No mining or exploration risk, limited capital expense (a preliminary budget of USD50m is forecast for the primary processing facility), proven metallurgy, and a path to production in a fraction of the time associated with traditional mining. With partial financial backing for the development schedule secured by way of strategic partnerships with two sovereign funds in the Middle East and preliminary engineering work underway, the company is now advancing simultaneously on three fronts: (1) securing feedstock agreements with vendors, (2) completing engineering and permitting for the planned primary processing facility, and (3) defining offtake terms with potential buyers of rare earths.

Figure 1: Rare Earth Production Flow

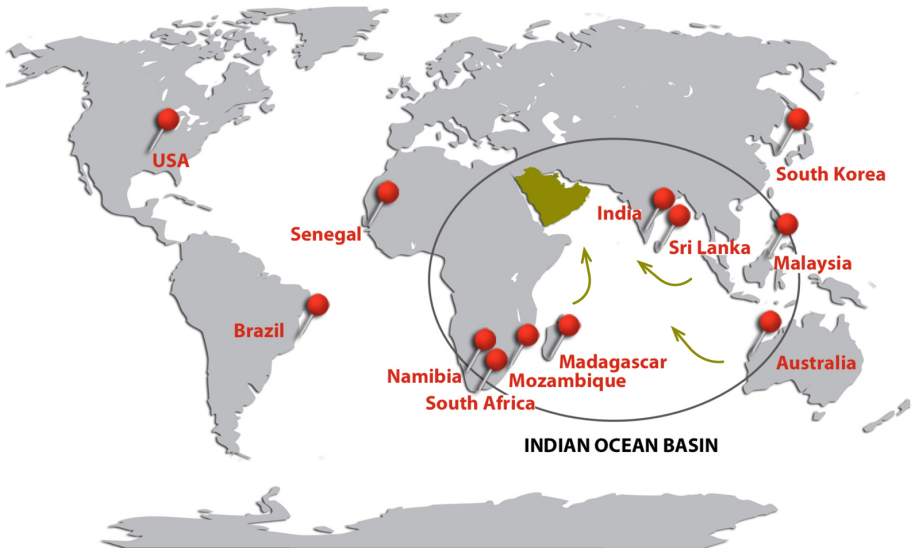


2 Monazite Feedstock

Rare earth elements represent up to 60% of concentrated monazite. Monazite is a rare earth phosphate mineral that has historically been mined from beach-heavy-mineral-sand deposits. These beach placers are formed by wave-action gravity concentration of the heavy-mineral grains. There are significant heavy-mineral-sands mining operations in Australia, South Asia, Africa and the Americas, where these beach deposits are mined principally for the titanium and zirconium. Monazite is a by-product of these operations and it has been processed for its rare earth content for over 100 years. Small-scale monazite rare earth extraction plants are in operation today in China, India and Brazil. In addition to being a readily available rare earth resource and having a well-understood and commercially proven metallurgical process, monazite concentrates often contain more of the lucrative heavy rare earths than does bastnaesite, which is the other industry-standard rare earth ore mineral.

"Without the know-how, equipment, or permitting required to process, separate and distribute the REE by-product, heavy-mineral- sands miners have had little choice but to accumulate REEs on-site."

Figure 2: Rare Earth Sources



A direct path to purchase a ready supply of monazite has enormous advantages for Medallion. So what's in it for the vendor? Heavy-mineral-sands projects are huge operations designed primarily for the production of titanium and zirconium. Without the know-how, equipment, or permitting required to process, separate and distribute the rare earth by-product, heavy-mineral-sands miners have had little interest in rare earths. By selling monazite feedstock to Medallion, they turn an accounting and environmental liability into an asset. Medallion has strategically located a site for its planned processing facility in the Middle East, which takes advantage of local sources of capital, industrial infrastructure, government interest in high-tech industry and a central location to the monazite supply from the world's largest heavy-sand miners. As well, the location is well placed to provide the separated rare earths to nearby technology-driven manufacturing economies of Japan and South Korea.

3 Processing and separation

Production of rare earths from monazite typically would include three steps: preparation of the monazite feed, hydrometal extraction of the total rare earths from the monazite and separation of the individual rare earth oxides from the total rare earth chemical concentrate produced from the extraction process. The first stage upgrades the monazite feedstock to a consistent and relatively pure monazite. The second stage breaks down the monazite using a combination of thermal and chemical agents. These three steps require specialized equipment and know-how; but they're well understood and have successfully produced rare earths for over 100 years. Monazite processed via these steps would first produce a single total rare earth chemical concentrate containing a basket of rare earths dominated by lanthanum, cerium and neodymium, as well as smaller amounts of other valuable rare earths. Thorium, which is radioactive, would be disposed of according to national and international regulations. The total rare earth concentrate would then be sent to a separation plant, which would produce the pure individual rare earth oxides for sale to manufacturers of industrial and consumer products.

Backed by sovereign-fund partners in the Middle East, Medallion is positioned to fast track a rare earth processing facility capable of outputting 10,000 tonnes of rare earth oxides per annum. A Middle East rare earth processing facility presents the following benefits:

- Proximity to monazite feedstock
- Excellent port and infrastructure
- Low-cost energy and chemicals
- Industry-friendly government
- Capital available to fully fund such projects

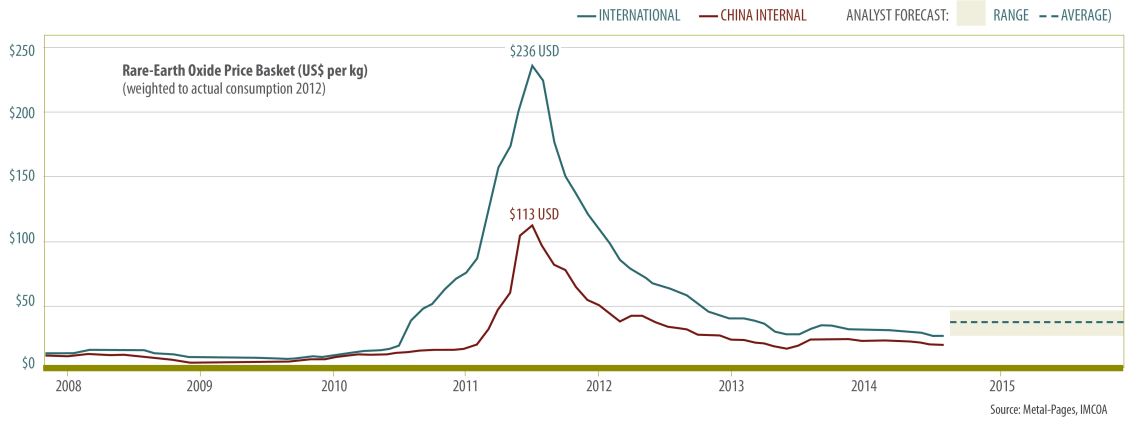
Figure 3: Rare Earth Facility Pro Forma[1]

		PHASE ONE		PHASE TWO
		Monazite Upgrading	Rare-Earth Extraction	Rare-Earth Separation
Plant Output		90 - 93% Monazite	Rare-Earth Carbonate (concentrate)	Light Rare-Earth Oxides Heavy Rare-Earth Concentrate
Land		2 hectares	5 hectares	10 hectares
Utilities	Water Power Natural Gas	20,000 M^3 925 mWh 2 million M^3	90,000 M^3 4 million mWh 4 million M^3	1,000,000 M^3 40 million mWh 22 million M^3
Chemicals	Acids Caustic Soda Sodium Carbonate Reagents	none	39,000 t 1,000 t 12,000 t 14,000 t	74,000 t 45,000 t 15,000 t 22,000 t
Waste		Heavy Sand Water	Chemical Waste Thorium (Sequester)	Solvent and Chemical Waste
Approximate Capital Cost		~$8 - 12M (1)	~$20 - 30M (1)	~$250M (1)

4 The Rare Earths Market

The threat of supply-side interruption was the chief culprit in producing the price volatility witnessed in the recent past. When China threatened to reduce its exports with new quotas and taxes in 2010, prices for rare earths erupted as manufacturing-based countries like Japan, Germany and the US raced to stockpile the metals. Ultimately, China's policy had little effect on global supplies and the pendulum naturally reversed its course, forcing prices down as quickly as they had risen. The figure below illustrates the extent of the price volatility during this period. Prices at their 2011 peak for cerium, lanthanum, and neodymium—the three most prominent elements in Medallion's target monazite ore, were priced at an average of 18.5 times higher than current prices. Current prices are now at a level equal to about twice the values recorded at their 2008/2009 bottom.

Figure 4: Rare Earth Oxide Price Basket (US$ per kg)



On the demand side, a number of factors contributed to the buyer apathy that has followed the bubble—some of these are temporary distortions and others more structural. Once the perceived threat of supply interruption from China was removed, the rest of the world found itself awash in newly stockpiled supply inventories. In some cases, these stockpiles represent several years' worth. However, annual growth in overall demand for rare earths is in the high single digits.

The threat of a critical interruption from China served as inducement to the rest of the world to identify new sources of rare earths outside Chinese control. To a certain extent this has been successful, notably Molycorp and Lynas are poised to become significant suppliers to rest-of-world demand although soaring capital costs and operating deficits have challenged investor support and slowed progress for these companies.

5 Neodymium

Of the five light rare earths present in monazite, neodymium is of most strategic interest to Medallion. Neodymium's main application is in high-strength magnets. Neodymium magnets are the strongest permanent magnets known. These magnets are used in a wide variety of products, such as microphones and speaker systems where low mass, small volume and strong magnetic fields are needed. For larger

industrial use, neodymium magnets are used in high-power electric motors such as those found in hybrid and electrical vehicles. Each motor requires approximately one kilogram of neodymium. Also, the magnets are used in new renewable energy technologies, such as wind-turbine electrical generation, a market that is expected to undergo considerable growth. In this application, about one-half tonne of neodymium is needed for every megawatt of generating capacity from a wind turbine.

6 Current Status and Next Steps

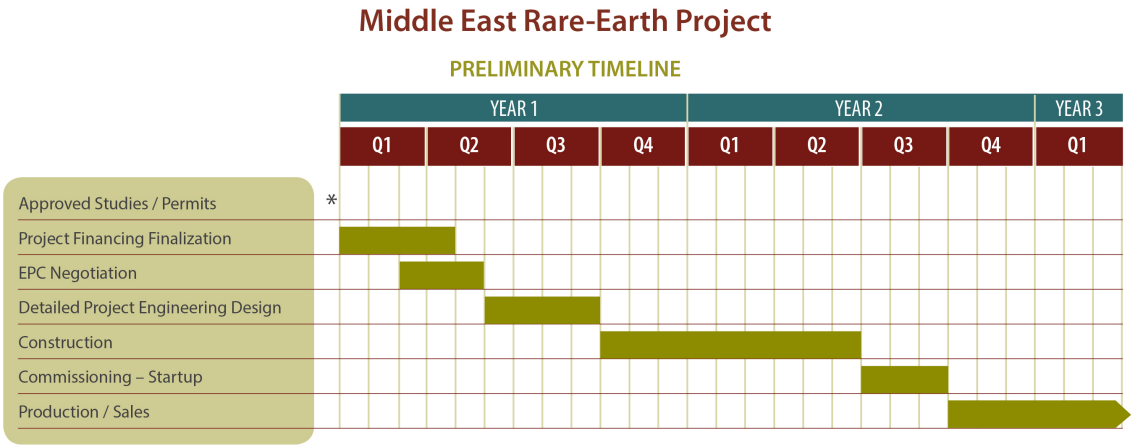
The Company took significant steps in executing on its strategy with the securing of strategic MOUs with two sovereign funds, Oman-based Takamul Investment Company, and Jordan-based Arab Mining Company (see news releases dated June 20th, 2013 and July 9th, 2013 respectively).

Takamul, a subsidiary of government-owned Oman Oil Company, has a mandate to develop sustainable projects in the mineral, metal and petrochemical industries in the Middle East. Under the non-binding MOU terms, Medallion and Takamul have agreed, subject to acceptance of independent co-funded financial, technical and environmental assessment studies, to establish a joint venture allocating a 60% interest to Medallion and a 40% interest to Takamul, with each party providing proportional capital for the project.

Arab Mining Company was founded by the Arab Economic Unity Council with a mandate to encourage joint Arab cooperation through investments in mineral resources within the Arab League nations. The non-binding MOU gives Arab Mining Company the exclusive right to negotiate terms to invest or participate in a joint venture, controlled and majority-owned by Medallion. As well, the agreement provides Medallion and Arab Mining with a proposed joint-venture framework for evaluating secondary rare earth opportunities within the Arab League region, including the construction and operation of rare earth separation facilities.

With the support of Takamul and Arab Mining, and the preliminary engineering studies, Medallion has laid the groundwork for primary and secondary rare earth processing facilities – budgeted at an estimated capital cost of US$50 million and US$250 million respectively. With secure monazite feedstock agreements in place, the Company has projected an accelerated 30-month plan taking it from permitting through construction to production and sales.

Figure 5: Preliminary Timeline

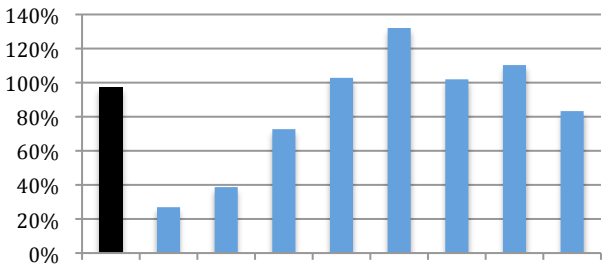


Medallion's top operational focus at this time is to secure monazite feed for its proposed facility. Negotiations with a number of heavy-mineral-sands producers and developers are advancing; although, securing these agreements has taken longer than anticipated. The Company confirms that sufficient quantities are available, both as stockpiles and from ongoing production streams, under reasonable terms for long-term agreements. Within the heavy-mineral-sands business, there is a growing awareness that monazite is an important economic source of rare earths and the major producers are seeking purchasers with viable business plans.

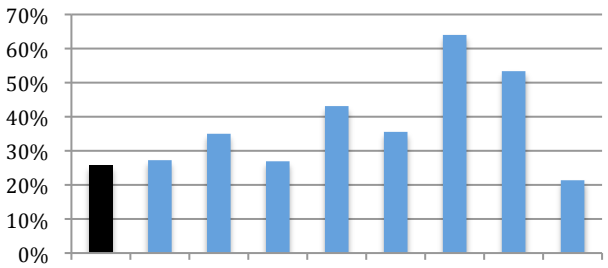
7 Comparables

Company	Sym	Stage	Mcap ($,000)	EV ($,000)	MCAP/EV	Share price % 52-wk high
Medallion Resources	MDL	Scoping	5,756	5,937	97%	26%
MolyCorp	MCP	Production	536,055	1,992,258	27%	27%
Lynas	LYSCF	Production	329,046	850,246	39%	35%
MEAN			432,551	1,421,252	33%	31%
Matamek Explorations	MAT	Feasibility	9,023	12,411	73%	27%
Avalon Rare Metals	AVL	Feasibility	60,000	58,362	103%	43%
Rare Element Res	RES	Feasibility	61,542	46,605	132%	36%
MEAN			34,080	30,829	101%	33%
Ucore	UCU	PEA	63,220	62,020	102%	64%
Tasman Metals	TSM	PEA	74,687	67,715	110%	53%
Quest Rare Minerals	QRM	PEA	18,073	21,698	83%	21%
MEAN			51,993	50,478	99%	46%

Market Cap/EV



Share Price % 52wk high



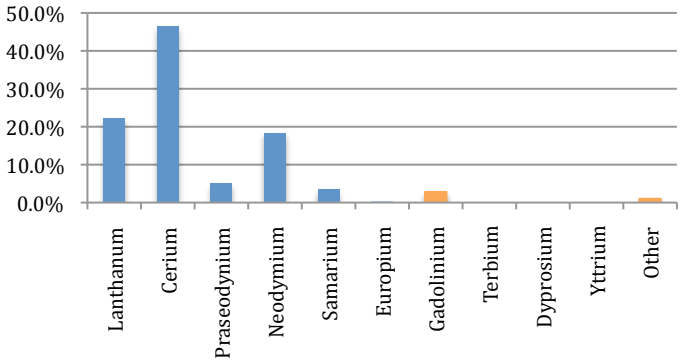
Light Rare Earth Oxides

	Lanthanum	Cerium	Praseodynium	Neodymium	Samarium
Medallion Resources	22.2%	46.6%	5.1%	18.4%	3.5%
MolyCorp	33.2%	49.1%	4.3%	12.0%	0.8%
Lynas	25.5%	46.7%	5.3%	18.5%	2.3%
MEAN	29.4%	47.9%	4.8%	15.3%	1.6%
Matamek Explorations	14.2%	29.3%	3.6%	13.5%	3.0%
Avalon Rare Metals	15.8%	35.7%	4.5%	17.8%	3.9%
Rare Element Resources	29.3%	45.9%	4.4%	14.4%	2.4%
MEAN	19.8%	37.0%	4.2%	15.2%	3.1%
Ucore Rare Metals	10.3%	29.5%	3.5%	14.5%	3.8%
Tasman Metals	9.5%	21.1%	2.7%	11.1%	2.0%
Quest Rare Minerals	13.2%	27.4%	3.0%	10.7%	2.6%
MEAN	11.0%	26.0%	3.1%	12.1%	2.8%

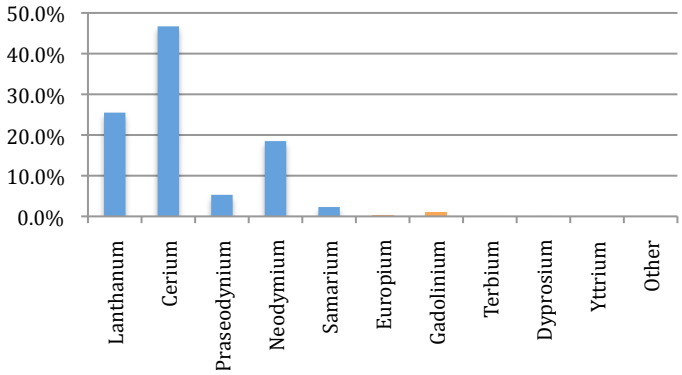
Heavy Rare Earth Oxides

	Europium	Gadolinium	Terbium	Dyprosium	Yttrium	Other
Medallion Resources	0.3%	2.8%	0.0%	0.0%	0.0%	1.0%
MolyCorp	0.1%	0.7%	0.0%	0.0%	0.1%	0.0%
Lynas	0.4%	1.0%	0.1%	0.1%	0.0%	0.1%
MEAN	0.3%	0.9%	0.1%	0.1%	0.1%	0.1%
Matamek Explorations	0.4%	3.0%	0.6%	3.7%	22.4%	6.3%
Avalon Rare Metals	0.5%	3.7%	0.5%	2.7%	11.7%	3.1%
Rare Element Resources	0.6%	1.2%	0.2%	0.5%	0.9%	0.2%
MEAN	0.5%	2.6%	0.4%	2.3%	11.7%	3.2%
Ucore Rare Metals	0.4%	3.6%	0.7%	3.9%	25.2%	4.7%
Tasman Metals	0.0%	3.3%	0.0%	4.7%	35.8%	9.8%
Quest Rare Minerals	0.2%	2.7%	0.6%	4.1%	28.1%	7.4%
MEAN	0.2%	3.2%	0.4%	4.2%	29.7%	7.3%

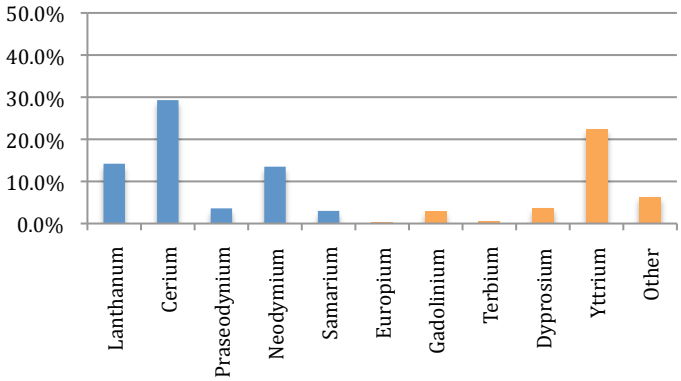
Medallion



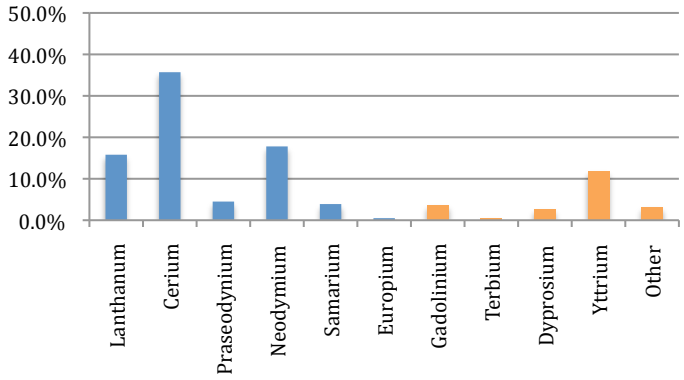
Lynas



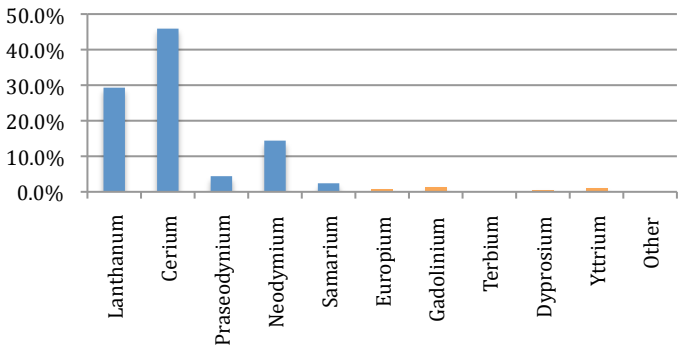
Matamek



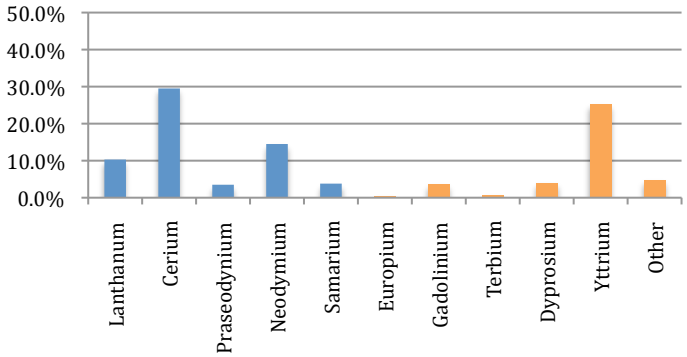
Avalon



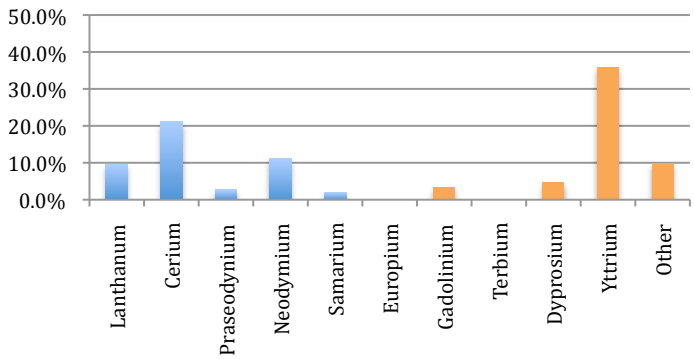
Rare Element



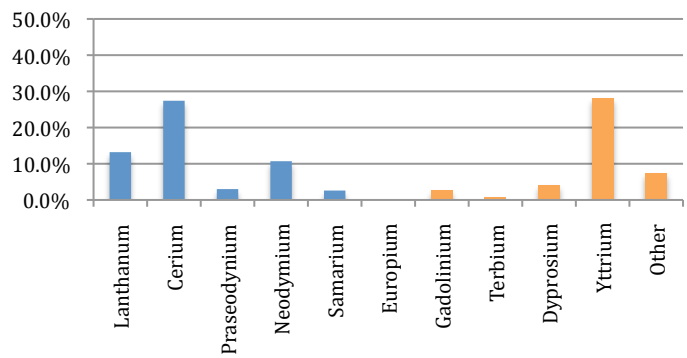
Ucore



Tasman



Quest



8 Summary and Conclusions

Unsurprisingly, valuation trends for rare earth-related companies have mirrored those of the underlying metals. The Market Vectors Rare Earth/Strategic Metals ETF tracks the overall performance of publicly traded companies primarily engaged in the mining, refining and manufacturing of rare earth/strategic metals. At the time of writing, the ETF held 21 positions, including Lynas and MolyCorp. As such, it represents a reasonable proxy for the sector. It launched in October 2010 at $86, traded to a high of $111 in April 2011, and has since plummeted to its current low of $36. At this point speculative investment in rare earth equities has largely exited the sector and valuations appear to have established a bottom.

52-week MV Rare Earth ETF

Medallion occupies a unique position in the rare earth market; and, although we compare the Company to a selection of developers and producers, its business model is, in many ways, more akin to that of a commodity streamer—albeit without the capital investment that typically guarantees feedstock supply. By way of an innovative approach to the industry, Medallion has arrived on the doorstep of production unencumbered by the considerable cost, risk and time associated with discovery and development. The key to Medallion's ultimate success hinges, of course, on its ability to secure a long-term monazite feedstock agreement. Big-company inertia has no doubt frustrated the process from Medallion's point of view but the Company clearly has the ear of the monazite supply sources and has entered into advanced discussions with a number of potential suppliers.

At current prices, Medallion is trading at roughly equal to its enterprise value; and, given its stage, this probably represents fair value. However, the securing of a long-term feedstock contract would immediately catapult the company into the feasibility stage and trigger a re-rating. At that time, depending on the size of the resource, we would expect to see the Company trading at multiples of its current value. We assign a high probability to the Company securing a feedstock contract. For investors willing to accept a measure of uncertainty around this catalyst, we believe Medallion represents an excellent opportunity to gain exposure to the emerging developer sector.

9 Risks

- Finance risk

This represents one of the most acute challenges for a junior publicly-traded resource company in the current environment. Medallion has secured some valuable relationships with two sovereign funds in the Middle East to participate in funding its capital-cost requirements. The Company also needs to secure sufficient funding in the equity markets to meet its obligations and ensure that operational and corporate administrative costs are covered.

- Dilution risk

A prolonged environment of depressed equity values could force the Company to continue financing its operations at current prices. The net effect is a diluting of shareholder value over time.

- Operational/Execution risk

Although Medallion has made considerable progress in executing on its strategy, a number of significant business challenges remain. These include: 1) securing long-term monazite-feedstock contracts under suitable terms, 2) final permitting and

construction of primary and secondary processing facilities, and 3) securing of rare earth offtake agreements under suitable terms.

- Commodity risk

An estimated 70% of the Company's forecast revenue will be derived from the processing and distribution of neodymium. Notwithstanding the supportive market drivers for the metal, negative structural changes in the neodymium market could adversely effect the ability for Medallion to operate at a profit.

Appendix 1

Management

William H. Bird, PhD, P.Geo, Chairman & CEO

Dr William H Bird holds a PhD in Geology from the Colorado School of Mines, is a registered professional geologist, and has over 40 years of mining and corporate experience. He possesses a strong combination of business credentials and mineral-industry expertise. His practical and theoretical understanding of geology (most notably rare earth elements), mineralogy, and metallurgy is recognized as exceptional.

Since his early career as a mineralogy professor, Dr Bird has pursued his long-standing interest in rare earth elements and their mineral occurrences around the world. In 2005, he became CEO of Rare Element Resources, which owns the prominent Bear Lodge rare earth and gold property, where he was given the mandate to reorganize and refocus the company. Dr Bird left Rare Element Resources at the end of 2007 to devote his energy and expertise to Medallion Resources.

Don M. Lay
President & Director

Donald (Don) Lay works closely with Medallion's CEO Dr Bill Bird with a focus on corporate strategy and finance. Don has over 25 years of experience in public and private venture capital, corporate communications and international business. He has served as a senior officer and director for a number of public companies including mineral-exploration companies International Taurus Resources Inc, American Bonanza and Medallion Resources Ltd. Don was a principal at China MobileSoft, a seed-funded, embedded-software supplier that delivered solutions to Chinese telephone handset makers that provided an exceptional return to shareholders. Before entering the venture-capital world in 1994, Mr. Lay invested 13 years in enterprise software in the areas of development, sales and support. Don holds a Bachelor of Science degree in Computer Science from the University of British Columbia.

Tom Arnould, CA
CFO & Corporate Secretary

Mr. Arnould is a graduate from Queen's University in Kingston Ontario, receiving his Chartered Accountant's designation after articling with Coopers & Lybrand (now part of Price Waterhouse Coopers) in 1982. Since then, he has worked with various private companies in the food processing and distribution and group-benefits areas where he assisted with the sale of these companies to public entities. More recently, he has worked as a CFO of a private strategic-marketing firm, as a principal with Adler Business Solutions Inc and as the CFO of Securefact Inc. In addition, he consults with other companies on finance and accounting matters.

Sothi Thillairajah, MBA
General Manager – Middle East

Sothi Thillairajah has two decades of experience in management, international finance, advising North American corporations on Middle East joint ventures and early-stage, mineral projects in Africa and Latin America. Most recently, he was Managing Director at Revere Capital Advisors, a hedge-fund seeding group, working with investment professionals at Middle Eastern financial institutions, sovereign-wealth funds, and investment offices evaluating and recommending hedge funds and private equity investments. Mr Thillairajah earned a BA cum laude in Economics at the University of Rochester and holds an MBA in Finance and Statistics from the University of Chicago.

Warwick Bartle
Director of Feedstock Acquisition

Warwick Bartle's commercial experience with titanium and related minerals spans almost 50 years. He started as an industrial chemist, working in pigment production for Laporte Titanium (now Cristal Pigments). He soon found his way into international mineral sales and marketing, and over the years has held those responsibilities for titanium minerals, zircon and monazite for leading companies that include Western Titanium (now Iluka Resources), QIT (now Rio Tinto Iron & Titanium Inc), Cable Sands/RZM (now Bemax), and others. Mr Bartle, who is based in Australia, is a graduate of the Royal Institute of Chemistry, London.

Appendix 2

Financials – Audited Balance Sheet

			31-Mar-14	31-Mar-13
ASSETS				
Current				
	Cash	$	41,727	29,575
	Short Term Investments			400,000
	Other Receivables		6,775	28,486
	Prepaid Expenses		10,042	25,950
Total Current Assets			58,544	484,011
	Equipment		960	1,745
Total Assets		$	59,504	485,756
	Accounts Payable and Accrued Liabilities	$	133,616	108,340
	Due to Related Parties		88,770	5,942
Total Liabilities			222,386	114,282
	Share Capital	$	16,216,442	15,133,687
	Warrants		753,141	840,365
	Contributed Surplus		1,613,831	1,526,951
	Deficit		(18,746,296)	(17,129,529)
Total Shareholder's Equity (deficit)			(162,882)	371,474
Total Liabilities and Shareholder's Equity (Deficit)		$	59,504	485,756

Appendix 3 Disclaimers and Disclosures

Vertus Investment Advisory Limited ("Vertus") specializes in providing research based advisory services to its institutional clients. This research is based on current public information that we consider to be reliable, but no representation or warranty, express or implied, is made by Vertus, its employees, or affiliates as to its accuracy, completeness, or correctness. Any "forward looking statements" are our best estimates and opinions based upon information that is publicly available and that we believe to be correct but there is no guarantee that our forecasts will materialize. This research is provided for informational purposes only and does not constitute an offer or solicitation to buy or sell any securities discussed herein in any jurisdiction. This research does not have regard to the investment objectives, financial situation, or needs of any particular person. Investors should obtain advice based on their individual circumstances before making an investment decision. To the fullest extent permitted by law, neither Vertus nor its employees or affiliates accept any liability whatsoever for any direct or consequential loss arising from any use of the information contained in this research. A single fee of not more than $5,000 has been paid by Medallion to Vertus. The purpose of this fee is to subsidize the cost of research. Vertus, its employees, or affiliates, may at any time beneficially own shares in companies covered. Vertus is regulated and authorized by the Financial Services Commission, Mauritius (FSC). The firm's principal place of business and registered office is Suite 7A, 7th Floor, Ebene Mews, 7 Ebene Cyber City, Ebene, Mauritius. Tel: +230 466 9700 Fax: +230 466 9702.