

September 29, 2011

Mali Exploration Update

Merrex Gold Inc., MXI:TSX-V



HIGHLIGHTS:

- >> Drilling season 2/3 complete
- >> Review of assays bullish for thesis and goals
- >> New zone on 1A structure could be larger than 1B
- >> RC drilling establishes continuity over 4km on both structures
- >> New "priority" Bambadinka Trend traced over 10km

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Shares Issued: 118.9 million
 Fully Diluted S/O: 141.0 million

Enterprise Value: \$47 million
 Market Cap: \$61 million

Last Price: \$0.50
 52-week high: \$0.65
 52-week low: \$0.35
 Dividend Yield (annual): Nil

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CAPITAL STRUCTURE	Millions	SHARE STRUCTURE	Millions	OWNERSHIP STRUCTURE	%
Cash & Equivalents	\$16.0	Shares Issued	118,899,793	IAMgold	14.0%
Deferred Exploration Costs	\$11.2	Warrants	13,343,800	Greg Isenor	9.6%
Total Assets	\$27.8	Options	8,790,000	John Cumming	1.8%
Total Liabilities	\$0.4	Fully Diluted s/o	141,033,593	Other >1%	10.0%
Shareholders Equity	\$50.7			Significant Positions	35.4%
Working Capital	\$16.0	Convertibles	0	Float	64.6%
Annual Burn Rate	\$5.0	Other Securities Issued	0	Total	100.0%

Results Summary & Recap

During September Merrex Gold released more assays from its 2011 drill program at the Siribaya project in Mali, West Africa, in which IAMGOLD is earning a 50% interest by spending \$10 million through 2012.

The company says, "Vesting of Iamgold's interest is anticipated for fourth-quarter 2011 or first-quarter 2012."

The Siribaya Trend hosts at least two mineralized subparallel shear structures (1A and 1B) trending north to south within a 10km long megastructure. The current NI-43-101 resource is largely at "Zone 1B" on the 1B structure and covers about 900 meters of strike length (and 100-150m depth). The two structures are 500-1000m apart and control the mineralization. The joint venture is two thirds of the way through, with drilling halted for the rainy season and scheduled to start up again some time in the next few weeks. The drill program has three basic objectives:

- A 10,000 meter core diamond drill program funded by Merrex is designed to increase the NI 43-101 gold inventory at Siribaya to around the 1 million ounce mark from its current 378,000 ounce inventory
- Up to 40,000 meters of reverse circulation drilling by JV establishing continuity over ~6km of strike, and potential for a multi-million oz resource...as well as to identify locations for follow up core drilling
- About 10,000 meters of auger drilling by the JV to confirm prospectivity of the new Bambadinka trend, which also has been traced over 10km...as well as drill testing other prospective targets at Babara

The drill program at Bambadinka is covered separately (below), and warrants special attention, as it is also a large target (traced over 10km converging with Siribaya to the south) and potentially a multi-million ounce resource.

Diamond Drill Program Returns Sizeable Widths and Depth; Ready to Drill 1A Structure

At its diamond drill program Merrex has completed 6,500 meters in 34 holes so far with half of them already released (see best holes below). It still plans to drill 3,500 meters in about 23 holes once drilling starts up again.

The diamond drill program has been mostly concentrated at Zone 1B (see map on pp 4) where it will likely increase the strike length of the known resource to around 1,200m and confirm the confidence and grade with infill drilling.

Hole ID	Target Description / Notes	From	To	Core Length (interval)	Au (g/t)
SRD11-105	Zone 1B Infill (RCL10)	267.0	272.0	5.0	4.6
SRD11-107	Zone 1B Infill (RCL10)	21.0	23.0	2.0	0.7
		26.0	38.0	12.0	3.6
	<i>-including</i>	<i>26.0</i>	<i>32.0</i>	<i>6.0</i>	<i>6.4</i>
		44.0	56.0	12.0	2.3
	<i>-including</i>	<i>50.0</i>	<i>52.0</i>	<i>2.0</i>	<i>5.9</i>

The latest batch of drill results released for this part of the drill program (best intervals above), except for two holes, was basically drilled in the center of the zone (along fence RCL10 in the map). Hole SRD11-105 (5m @ 4.6 gpt) is relatively deep...not necessarily the deepest drilled to date but deeper than the known resource. It demonstrates a tendency, perhaps, for grades to increase with depth at this zone. With respect to drill hole SRD11-107 above the company notes, "it is a particularly impressive hole if a realistic mining width is considered." Including the sub par intervals, when the intervals are aggregated they return "2.15 g/t Au over 37 metres." Those kinds of widths add up

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quickly, and our hunch is that the resource at zone 1B will grow 20-50 percent. However, over half of the remaining 23 holes to be drilled are destined for the 1A structure to the east of 1B where the joint venture has outlined a new zone over at least 1,000 meters of strike length about 1km north of Zone 1A (see map) via RC drilling. It has drilled 5 RC fences across the structure there this year over about 1000m of strike length spaced 200-250 meters apart.

If this zone pans out the NI 43-101 may end up exceeding expectations.

RC Drilling Establishes Continuity Over 4km in Both Structures

The reverse circulation drill program is also two thirds complete with 21,506 meters drilled so far this year.

The JV has drilled some 17 RC lines (fences) at variable lengths of up to 1 kilometer across both parallel structures over about 6 kilometers of strike length –up to 1km north of zone 1B (will be 2km north by year end) and up to 2km south of zone 1B (which has a strike of ~900m). Most of the fences are spaced at around 250 meters and target infill data, but some, notably in the southern extensions, are widely spaced at up to 500 or even 1000 meters.

Two weeks ago Merrex released another round of assays from this drill program that underscored the prospectivity of the aforementioned new zone on the 1A substructure (about 1km north of “Zone” 1A and east-southeast of 1B).

The company circled this new zone on the provided map (see pp. 5). Note that it is somewhat larger than zone 1B, which bodes well for the upcoming resource calculation. The latest set of results returned two holes on line RCL12 at the south of this new zone (see table below) that graded 1.87 and 1.99 grams per tonne, respectively, over 14 and 19 meter intervals from less than 50 meters of vertical depth. The latter hole was “especially exciting” as when applying a realistic mining width it returned 31 meters grading 1.6 g/t, management said in its news release.

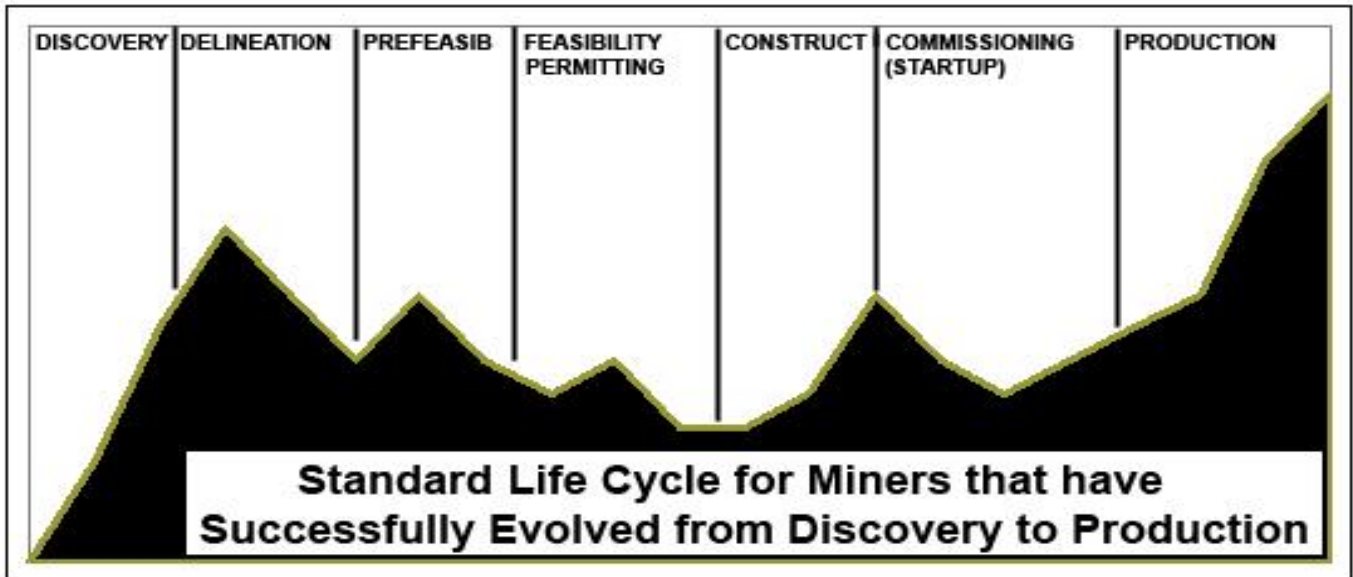
Hole ID	Target Description / Notes	From	To	Core Length (interval)	Au (g/t)
TYC11-095	RCL12	43.0	62.0	19.0	2.0
	RCL12	66.0	74.0	8.0	1.3
	RCL12	102.0	103.0	1.0	1.1
TYC11-098	RCL12	34.0	35.0	1.0	0.7
	RCL12	50.0	64.0	14.0	1.9
	<i>-including</i>	<i>55.0</i>	<i>57.0</i>	<i>2.0</i>	<i>5.3</i>

However, the joint venture is comfortable saying that “RC drilling has shown the continuity of mineralization in the Siribaya Structure for 4 kilometres within both the 1A and 1B structures”, and that “Previous reconnaissance exploration including soil and termite geochemical sampling, RAB drilling, reconnaissance diamond drilling, high resolution airborne geophysical surveys, and mapping has outlined the Siribaya Structure for 10 kilometres.”

At SIRIBAYA: The Resource Hasn’t Stopped Growing

One would think that the most boring part of the lifecycle of an emerging producer is the permitting or construction phase. Sometimes it is...provided nothing new and material develops in this period. But, usually this is when the shares are attracting a new base of shareholder –looking forward to the approaching cashflow that the business is about to generate along with additional analyst reports and a pick up in volume. If the shares are worthy of the re-rating, they go up. I constructed the graph below from my own personal experience (circa 18 years) in evaluating junior exploration and development companies, and from studying other similar graphs. It is only a subjective reference.

Note that some time *after* the discovery is made the shares begin a relatively long descent. This is generally true, and particularly in those instances where the market has overshot the fundamentals...where it has overestimated what lies beneath. That’s why it is hard to get the market excited about infill drill results –they are only confirming what the market already knows and has become over-confident about. The beginning of this downtrend is by far the hardest because that’s when investors are still denying that that’s all there is, and that the deposit is not likely to grow much further. Traditionally, the original shareholder base consists of retail investors, or betting types, still looking for the synapse stimulation that the step outs provided on the way up (during the discovery stage). They are the first to suffer the punishment of a long grueling decline. The optimum point to get in on the future re-rating potential of a company in this situation is after the betters have stopped betting on resource growth but before the new long term oriented shareholder base starts coming in to take advantage of the transition to a “going concern.”



Note: there's lots of room for disagreement about the precise course of those humps between "DELINEATION" of the deposit and "PRODUCTION" (otherwise no one would ever buy in this period). This particular sequence simply reflects recent observations.

In Merrex's case, however, the resource has not stopped growing. The market has not even begun to understand the scope of the discovery. In fact, the above graph absolutely does not apply to Merrex. True, it discovered gold at the Siribaya prospect back in 2006, and the stock went to C\$1.30 (a \$50 million market cap), pricing in a gold deposit of between 500,000 and 1 million ounces. Unfortunately, the company started drilling in 2007 and liquidity started ceasing up for the juniors not long after (the down turn in stock prices started in the third quarter of 2007 but the juniors started to melt in the second quarter as the overlay of the CDNX below shows). Regrettably for Merrex, it only had time to prove up about 400,000 ounces before the 2008 crash...even worse, some of its best drill results occurred *during* that time. In our view, as with many juniors then, the baby got thrown out with the bath water.



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With the Treasury empty and so much market uncertainty at the time management opted to sign a deal bringing IAMGOLD in (later in 2008) rather than over-dilute. Its shares fell like everything else. But, whatever one's view of the deal, it is obvious that IAMGOLD was sold on the project's potential to host a world-class (5-10 million ounce) resource. The comeback in Merrex's shares in 2009 came to a stop as the second resource estimate succeeded only in improving confidence levels and grades, and not much additional size –as the market had hoped. But now the company is poised to pass the long heralded 1 million ounce watermark (and then some?) for the resource.

Indeed, what the market does not yet understand is that this defined resource is in a zone covering just a fraction (<1km strike) of the overall dimensions of one of two structures that control the mineralization, and IAMGOLD has established their continuity over about 4 kilometers so far, as already pointed out. In order to put this into context, consider that the current NI 43-101 (308koz indicated @ 2.4gpt; 70koz inferred @ 2.3gpt) covers just ¼ of that strike length (<1 km) and mainly only deals with a zone on one of two of those parallel structures that we know are both mineralized over that 4 kilometer extent, according to the company. Its comment merely reflects its confidence in the “continuity” of mineralization on that 4km stretch where it has drilled most of its RC holes so far.

Reverse circulation drilling cannot provide the level of core detail required to form the basis of a resource estimate; it is cheaper than diamond drilling and typically functions as scout drilling to locate optimum diamond drill targets to define the resource with later. In this case there have been core holes drilled on some of the RC lines already, so it will be interesting to see the ultimate impact on the next NI 43-101 update. Either way, what the RC results tell us is that the resource is likely to grow further beyond the 1 million ounces that they're aiming for this year...dimensions so far suggest the potential to prove up 4-5 million ounces as well, and that is within 100 meters of surface and 4km strike. The proof of this pudding will probably come late next year after IAMGOLD has fully vested for its 50%.

And there is lots of room to expand that potential resource at both depth and along strike. The icing on the cake is the discovery of the Bambadinka trend 2 kilometers west, which looks every bit as promising as the Siribaya trend.

[See below for full analysis]

As well, there are attractive targets yet to be drill tested on related claims further west and to the east of Siribaya.

The upshot is that Merrex has not yet completed the discovery phase of the typical lifecycle of a junior company.

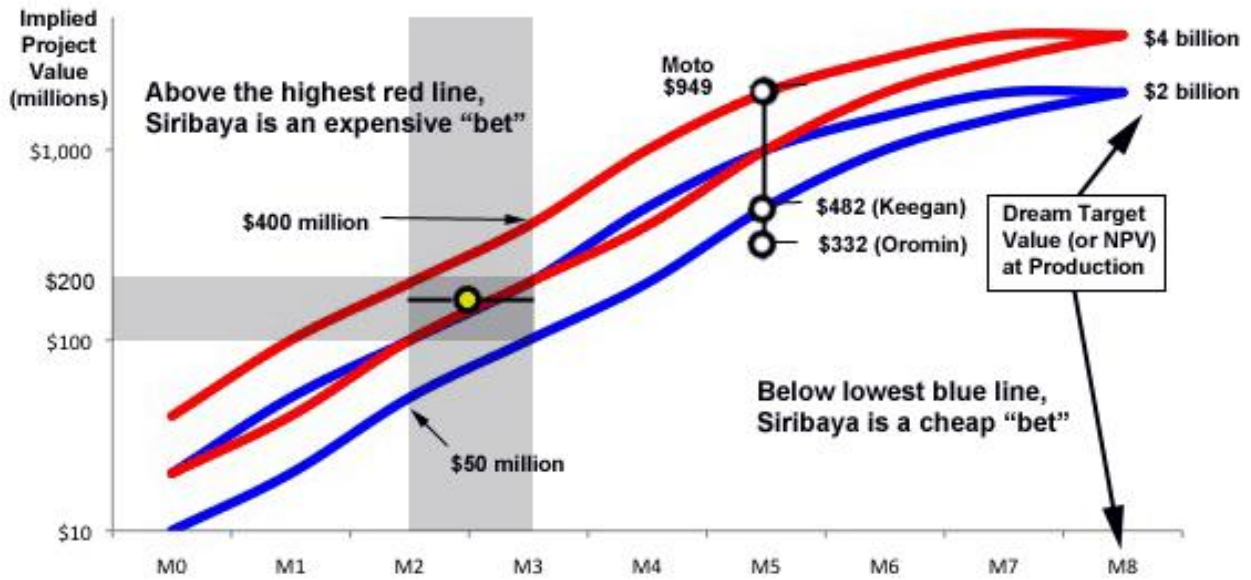
After an interruption in momentum brought on by the 2008 economic bust, and the restocking of Treasury this year, it appears this deposit is ready to grow again. The market is numb to the concept, as it had discounted the first 1 million ounces early in the game. But through it all the joint venture has continued to sample, map and drill.

The results have in fact been good, and on the whole it appears that Merrex is on track to achieving its 1 million ounce short-term goal, at least. And while the market has not yet attributed value to the multi-million ounce potential of the entire Siribaya trend (i.e. anything over 1 million oz), we believe it is only a matter of time, and almost irrespective of what happens to gold prices. This project was good at less than \$1000 gold. It's even better at \$2000 gold. So how does one value a project that has above average potential to host 10 million ounces but has less than 1 million ounces defined (or proved up) so far?

John Kaiser's Rational Speculation Model

One way is through a probability adjusted model created by RTZ back in the day...with the probabilities adjusted for current realities (since the original model is from the seventies). A 10 million ounce deposit is considered to be a world-class asset and one that has been proven and ready to put into production can easily be worth upwards of \$2 billion in NAV. Before Osisko acquired Brett Resources early in 2010 the market gave it nearly a \$3 billion market cap for its 12 million ounce (back then it was about 10Moz) Malartic gold deposit in Quebec's Abitibi belt...a deposit that grades less than half the grade of the target we are concerned with in Malio. The exploration program is at the infill and delineation stages, a point at which our model asserts a 5-10% chance of success. So, adjusted for this probability, we calculate an implied project value today of between \$200 and \$400 million. Adjusted for Merrex's minimum final interest (37.5%), that market is attributing just \$163 million –significantly below the range of values implied in our probability-adjusted set for a world-class deposit. We think the probability of success is greater than the 10% implied in our model, and we believe the potential scope is ultimately larger than 5-10 million ounces too.

Our \$2 target price assumes that the market realizes a project value of \$600 million, about 50% above the top end of the range suggested by our valuation model for early stage projects. This range increases over time as the project advances towards production. If the joint venture can produce an NI 43-101 confirming our early judgment, and in two years time is in the feasibility stages, our model predicts a project value of at least \$1 billion, which is \$3 per share given the current share structure. Our target thus only factors in some euphoria on the confirmation of what we think the joint venture can achieve in the next year. It still leaves plenty of upside for further developments.



Shaded column represents a range for Merrex Gold’s lifecycle stage (delineation and infill drilling), as per the table below. The yellow dot is Merrex’s current implied project value (\$163 million) based on its market cap, and adjusted for final interests, which is at the low to middle range of the values that it should fall within: \$50 to \$400 million -representing a fair or probability adjusted NPV for a world class project (about 5-10 million ounces in size).

PROBABILITY ADJUSTED PROJECT VALUES

PROBABILITY LADDER FOR IPV CHART ABOVE									
Lifecycle Stage		Probability		Implied Leverage		Valuation Channels (USD Millions)			
		Lower Band	Upper Band	Lower Band	Upper Band	WC1 Lower	WC1 Upper	WC2 Lower	WC2 Upper
M0	Grassroots Work	0.005	0.010	100	200	\$10	\$20	\$20	\$40
M1	Target Drilling	0.010	0.025	40	100	\$20	\$50	\$40	\$100
M2	Discovery Delineation	0.025	0.050	20	40	\$50	\$100	\$100	\$200
M3	Infill Drilling	0.050	0.100	10	20	\$100	\$200	\$200	\$400
M4	Bulk Sample & Metallurgy	0.100	0.250	4	10	\$200	\$500	\$400	\$1,000
M5	Prefeasibility & PEA	0.250	0.500	2	4	\$500	\$1,000	\$1,000	\$2,000
M6	Feasibility & Permitting	0.500	0.750	1	2	\$1,000	\$1,500	\$2,000	\$3,000
M7	Construction	0.750	1.000	1	1	\$1,500	\$2,000	\$3,000	\$4,000
M8	Production	1.000	1.000	1	1	\$2,000	\$2,000	\$4,000	\$4,000

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New Bambadinka Target Coming Into Its Own Auger Drilling Confirms Mineralization in Bedrock

September 6, 2011

Unpublished Previously

Merrex Gold (MXI:TSXV) released final assays from its mechanized auger drilling program at the developing Bambadinka Trend on August 25th. The target has become a “priority” in IAMGOLD’s words. This new trend travels north-south and has been traced over 10km. At the north end it is about 2km west of Siribaya; at the south end of its known strike extent, it appears to converge with the Siribaya megastructure (which itself trends NE-SW).

The Bambadinka target originally had a 5x1 kilometer footprint, according to geochem soil samples...later extended to a 10km strike with additional sampling, and termite mound sampling. The latter can be indicative in the region.

About 9,781 meters of mechanized auger drilling has been completed at Bambadinka now covering a strike length of about 10 kilometers. In the map (on next page below) I count more than 20 fences (lines) drilled approximately 1km across, at 200-meter spacings in the north, and at 400-meter spacings in the south. While the drill program returned some exciting and some so-so results, *specific* assays from the surface drilling program are not relevant, especially not those in laterite. It’s good that they are getting assays as high as 3.40 g/t over 4.5 m from the laterite and 2.56 g/t over 4.5 m from the saprolite rock beneath. But, auger drilling only tells us there is potential; we can’t put too much faith in those assays as representative of what is going on...yet. It was good enough at this point just to see that they are getting anomalous and significant assays across fences of up to 1km and over 10km of strike.

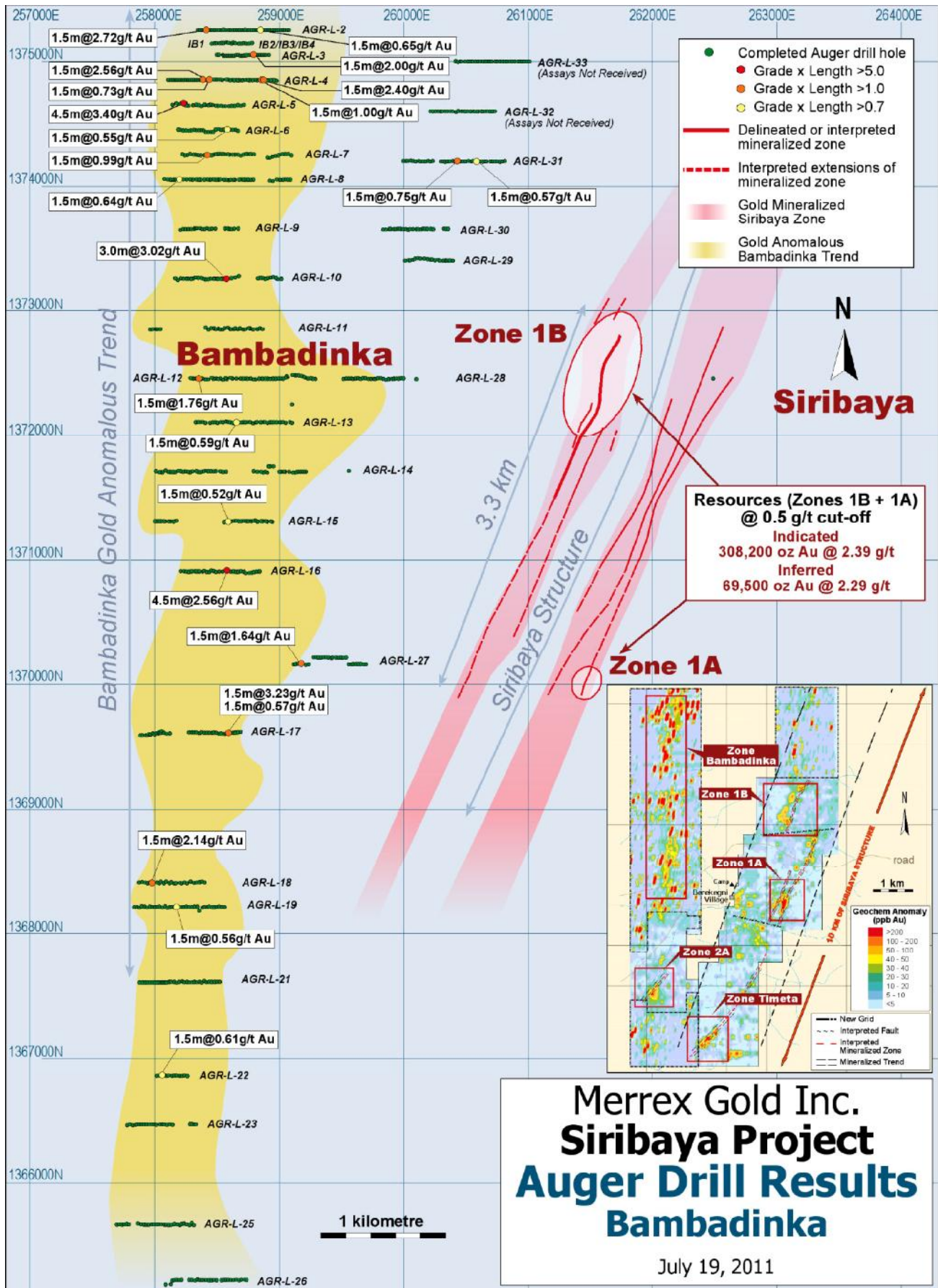
The object of this drilling program was to extend and confirm the strike length of the Bambadinka target (previously suspected to be 10km), and to confirm that the mineralization extended into the saprolite bedrock below the 5-10 meters of surface laterite cover (a topsoil formed by weathering processes) in order to reduce the likelihood that the mineralization has been transported from somewhere else on the property, and to prepare for RC/Diamond drilling.

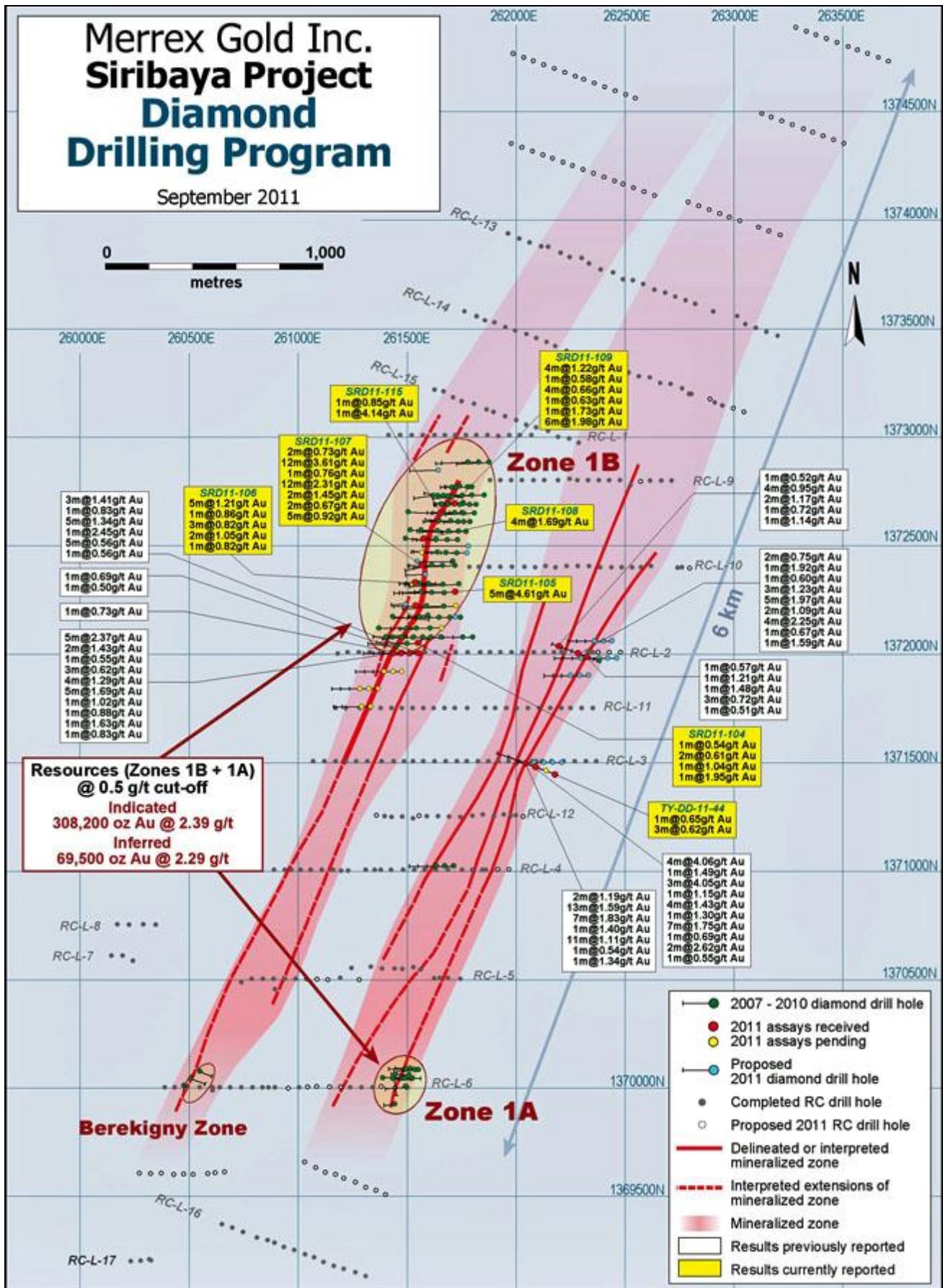
The company notes that, “*assays from samples taken from in situ saprolite rock are an expression of the bedrock gold geochemistry.*” This is great news, though not all that new for us. We’ve been hearing good things about that project all year. When I look at the drill map (below) that highlights both of the trends (Bambadinka and Siribaya) and significant assays at Bambadinka I cannot help wonder about what is going on at depth. It’s too early for that to be sure. The JV hasn’t drilled much below about 200 meters, and the average depth of its drilling has been less than 100m so far. Frankly, moreover, they don’t need to test that proposition right now. There is plenty of evidence to suggest the potential to ultimately define a 5 million ounce resource within the first 100 meters at Siribaya alone.

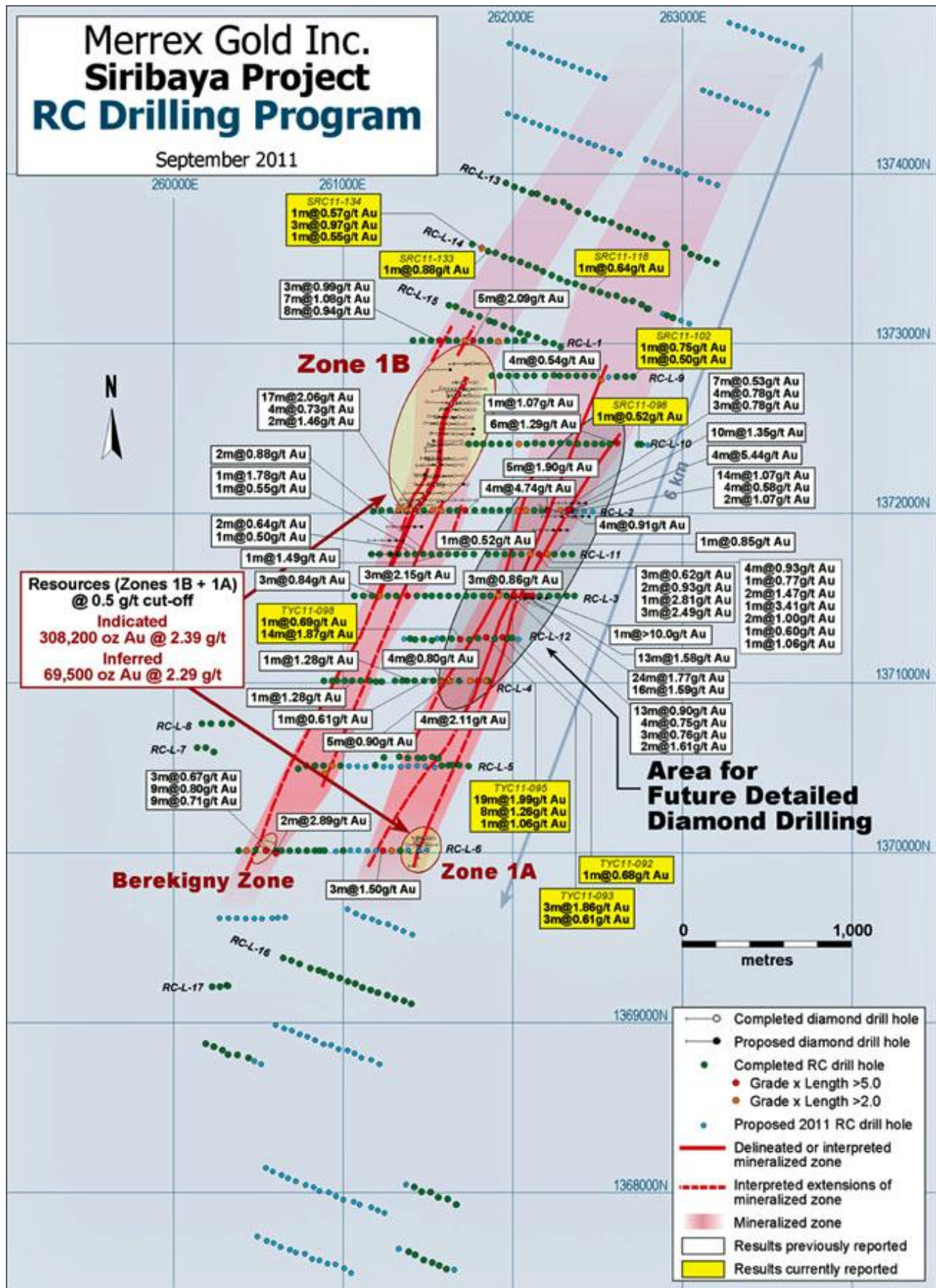
It would be a waste of money and an unnecessary bet to expend too much time exploring for what may turn out to be the needle in the haystack down deeper before the near surface extent of this deposit were properly calculated.

This year the JV is trying to firm up a 1 million ounce resource at the northern end of the Siribaya megastructure 2km east of Bambadinka (the Siribaya structure includes at least two parallel zones running side by side with the potential for mineralization in between) in order to demonstrate the reliability of this thesis at just one small section of the trend; as well as to confirm a strike length over as much as 6-7 kilometers by drilling fences that are spaced 200-500m meters apart (as per our last update). Unfortunately, RC drilling in widely spaced fences does not tend to end up in a resource estimate. The target generally has to be diamond drilled, though RC drilling may in the end necessitate less diamond drilling for the calculation of a resource, if the quality of RC drilling information is good.

The upshot is that we have to reiterate our top priority buy on this stock. Our intermediate target is \$2 over the next 12-18 months as the market comes to understand this project better, and realizes the potential for a multi-million oz gold resource at the Siribaya trend alone. The elevation of the Bambadinka to a stand-alone “priority” target is just some of the icing on the cake. We suggest there is more to come as IAMGOLD tests targets on claims to the east.







PREVIOUSLY PUBLISHED (25 JULY 2011)**Drills to Stop Turning For the Rains at the Merrex/IAMGOLD Siribaya Gold JV in Mali, West Africa**

The seasonal rains are about to start in West Africa, and drilling at the Merrex/IAMGOLD Siribaya Gold JV in Mali, where IAMGOLD is earning 50%, is scheduled to stop until mid September when the grounds are workable again.

The 2011 drilling programs are on track - almost two thirds complete in total – each with their own goal,

- 1) 10,000m of diamond drilling aimed at increasing the NI 43-101 to approximately 1Moz
- 2) 30,000m of reverse circulation drilling aimed at establishing strike and continuity over 6km
- 3) 10,000m of auger drilling aimed at establishing validity of new Bambadinka target to the west

**Diamond Drill Program Extends 1B 50m South
And Delineates New Zone on 1A Structure 2000m North of Zone 1A**

The JV has been drilling since February. Some 30,000 samples have been sent to the lab for assay, with just 7,000 assays received back so far. Turnaround times are difficult to predict because the lab is backed up, we understand.

However, the first ten holes of the 10,000-meter diamond drill program (#1 above) have been released with Merrex finished drilling 6,000 meters in over 30 holes. The diamond drilling is concentrated on increasing the mineralization around zone 1A and 1B –the sources of the resource delineated in the NI 43-101 totaling about 378koz @ 2.39 gpt so far. The two zones are on different but parallel substructures (we recommend referring to the map on pp 4 for a visual). Zone 1B contains most (98%) of the total gold resource (Zone 1A contains just 6,000 ounces); only about 900 meters of strike at zone 1B is currently incorporated in the NI 43-101. The drill holes reported to date extended Zone 1B by about 50 meters south to fence RC-L-2 on the map, with two of the four holes drilled there returning a few significant widths (of 3-5 meters) grading 1-3 grams per tonne at depths of less than 100 meters (see table 1).

TABLE 1:**SELECT DIAMOND DRILL HOLE HIGHLIGHTS (1)**

Hole ID	Target Description / Notes	From	To	Core Length (interval)	Au (g/t)
SRD11-097	South of Zone 1B, Fence RCL2	5.00	10.00	5.00	2.37
	South of Zone 1B, Fence RCL2	26.00	30.00	4.00	1.29
	South of Zone 1B, Fence RCL2	34.00	39.00	5.00	1.69
SRD11-100	South of Zone 1B, Fence RCL2	18.00	21.00	3.00	1.41
	South of Zone 1B, Fence RCL2	67.00	72.00	5.00	1.34
SRD11-103	North of Zone 1A, Fence RCL2	34.00	37.00	3.00	1.23
	North of Zone 1A, Fence RCL2	58.00	63.00	5.00	1.97
	<i>-including</i>	<i>58.00</i>	<i>60.00</i>	<i>2.00</i>	<i>3.79</i>
	North of Zone 1A, Fence RCL2	106.00	110.00	4.00	2.25
TY-DD-11-41	North of Zone 1A, Fence RCL3	21	25	4.00	4.06
	North of Zone 1A, Fence RCL3	41	44	3.00	4.05
	North of Zone 1A, Fence RCL3	50	54	4.00	1.43
	North of Zone 1A, Fence RCL3	61	68	7.00	1.75
	North of Zone 1A, Fence RCL3	75	77	2.00	2.62
TY-DD-11-43	North of Zone 1A, Fence RCL3	9	22	13.00	1.59
	<i>-including</i>	<i>11</i>	<i>13</i>	<i>2.00</i>	<i>3.59</i>
	North of Zone 1A, Fence RCL3	24	31	7.00	1.83
	<i>-including</i>	<i>26</i>	<i>28</i>	<i>2.00</i>	<i>3.82</i>
	North of Zone 1A, Fence RCL3	41	52	11.00	1.11
	<i>-including</i>	<i>47</i>	<i>48</i>	<i>1.00</i>	<i>3.88</i>

(1) True thicknesses are about 80% of core lengths (drill hole angles ranged from -55 to -65); full table of assays at company website

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The other diamond drill holes were drilled along the same fence (RC-L-2) crossing the (parallel) 1A substructure about 1km to the east, as well as along a fence 500 meters to the south (RC-L-3) of those holes...also on the 1A substructure. These holes (TY-DD-11-41 and 43) were even better with some coming in at widths of 4 to 13 meters with grades ranging from a little over 1 gpt to as much as 4 gpt (the best hole returned a grade of 1.6 gpt over 13 meters but there were holes that graded 4 gpt over 4m). The upshot of this part of the drill program to date is that it has established a cousin to Zone 1A with a 500m strike length located southeast of Zone 1B just 2km north of 1A.

Most of the remaining assays due out will be infill holes at 1B to increase confidence, and maybe grade; and after the rains the plan is to extend Zone 1B another 200 meters south plus about 50 meters to the north, increasing the total strike length on that substructure included in the NI 43-101 by about 33%, and to define about 500 meters of strike on the 1A substructure to the north of Zone 1A...if not potentially the entire area in between it and Zone 1A.

Our guess is that at a minimum this program will have doubled their resource inventory to around 800koz.

That is a speculative and very early stage guess.

Nine New RC Fences –Both Infill and Stepout

The plan for the 2011 RC drill program is for 30,000 meters of drilling across the 1A and 1B substructures to: i) investigate the strike length of the 1A and 1B Siribaya substructures north and south of Zone 1B, and ii) selective infill drilling along 200 -- 300 meter spaced fences to follow up on mineralization intersected during 2010 drilling.

In other words, this part of the drill program is aimed at establishing a strike length over about 6km – from about 2km north of Zone 1B to about 1km south of Zone 1A – along both of the parallel substructures. In 2010 the JV drilled eight lines (RCL1-RCL6 plus RCL9 and RCL10 –see map) across these substructures establishing about 3km of strike length on the Siribaya trend. The current drill program has already doubled the strike, and aims to improve confidence in the continuity of the mineralization also –both in between last year's fences and in between the parallel substructures themselves. A total of 19,168 meters of drilling has been completed (30,000m planned) in 173 holes across about nine fences/lines in this part of the drilling campaign. We've only got assays for 9 holes to date, mostly along fence RC-L-11, which is located in between fences RC-L-2 and RC-L-3 through both parallel substructures (1A and 1B). This fence (RC-L-11) increases our confidence in the continuity of the mineralization between fences RC-L-2 and RC-L-3. The intercepts along the 1A structure on this fence were about twice as rich on average as those along 1B. And it was noteworthy that some drill holes outside the structures were mineralized.

Depending on additional results the dream outcome here is that the entire 2km strike length between Zone 1A and the developing new resource on the 1A structure can be included in the resource update, which would get them to their one million ounce target easy. However, the main purpose of this drill program is to establish continuity and strike over about 6km...and to thus demonstrate the potential for a minimum 3-4-million ounce resource at Siribaya.

Bambadinka Could Be Bullish Surprise

The market is also awaiting assay results from a 10,000m auger drill program (half complete) at the Bambadinka target a few kilometers to the west of the Siribaya trend. Bambadinka trends NW-SE and appears to converge with the Siribaya trend at its southernmost edge several kilometers south of the southernmost RC fence currently drilled.

Management seems to be excited about the fact that they have been getting decent grades in the saprolite, which is as good as bedrock –thereby reducing the chance that the mineralization was transported from another source.

Bambadinka just adds to the multi-million ounce appeal of this project.

There are targets to the west of Bambadinka and on some of the other concessions to the east of Siribaya.

Conclusion

The drill results were good. The market is not going to get the adrenalin rush it gets out of a discovery hole or from an above average intersection in a step out. Or at least it hasn't yet. It still might. Who knows what's really down there until the data reveals it. And there's lots of data coming. We continue to feel confident in the basic elements of the plan to build towards a 5-10 million ounce resource inventory; and the results so far suggest they're en route.

We have a \$2 medium term (12-18 month) share price target, and continue to recommend owning these shares.

COMPANY DESCRIPTION

Headquartered in Nova Scotia, Merrex Gold Inc was formed through the 2006 reverse takeover of its predecessor company Merrex Resources by Jubilee Minerals, a private company with Zn-Pb interests in Nova Scotia (Eastern Canada). The new company spun its non-core interests into a related company (Frontline) and paid out a special dividend to Merrex shareholders representing 39% of Frontline (FGC:TSXV) in 2010. The company's main focus is to advance its 2006 gold discovery in West Africa.

The company's flagship asset is its 100% owned Siribaya Gold project in Mali, discovered in 2006.

Siribaya is the largest contiguous gold exploration land package in Mali (six permits) spanning 848 km². It is located at the southeastern margin of a prolific sequence of Birimian aged greenstones (known as the Kedougou-Kenieba Inlier –shaded area in graph to the right) shared by Randgold's Loulo and IAMgold's Sadiola mine, as well as others (like Tabakoto-Segala, Sabodala, Yatela) that host resources of more than 30 million ounces in total (to the north). Five mines in the region produced over one million ounces in 2009.

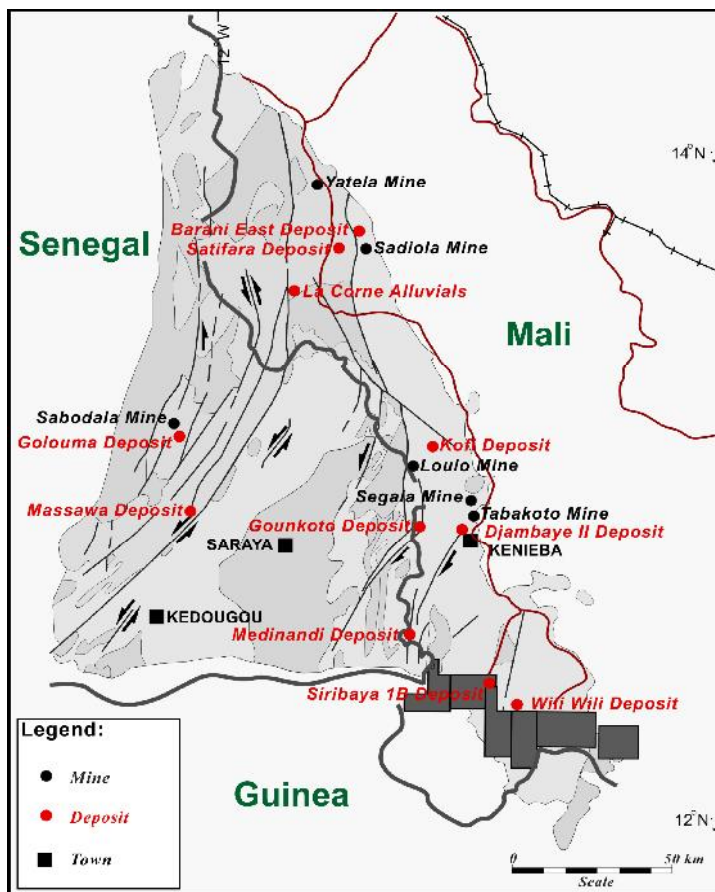
Similar Birimian aged sequences show up in Ghana too, where they host mines such as Red Back's Chirano and Anglo's big Obuasi mine.

Merrex spent \$8 million on the property since 2005, and in 2008 farmed 50% out to a JV with IAMGOLD (who became operator in 2010 having met the requisite conditions). IAMGOLD (IAG) must spend \$10.5 million to earn 50% over four years (by the end of 2012). It has spent approximately \$7 million as of the end of 2010, and announced plans to spend over \$3 million in 2011. Vesting of its 50% is projected for the end of Q4 2011.

As part of the deal, IAMGOLD also acquired an interest in Merrex shares (owned 9.6% at the end of 2010 and recently increases to 14%). The Siribaya mega-structure is now interpreted to contain two distinct sub-structures: zone 1B is 500m wide and 10.5 km long; and zone 1A to the west is 500m wide by 9.5km long.

The zones contain multiple subparallel shear structures. Detailed drilling of a significant structure (zone 1B) led to the NI43-101 compliant definition of 442,000 ounces of gold published by ACA Howe in 2009, revised to 377,800 higher confidence ounces in 2010 (**4,015,000 tonnes of 2.4 g/t indicated plus 946,000 tonnes of 2.3 g/t inferred**) over less than 900 meters of strike. It also led to the discovery of parallel shear structures. Wide spaced drill fences have extended this zone up to 3 kilometers so far on strike (southward), and the JV now believes it can confirm 2-4 million ounces over strike lengths of at least 6 kilometers in several sub-structures.

Merrex also controls 100% of the Jubilee Zinc-Lead project in Nova Scotia (subject to the issuance of 1 million shares of Merrex to Frontline for the acquisition of the other 50%). As of 2007 the Jubilee deposit had an NI 43-101-compliant resource estimate of 3.1 million tonnes grading 4.71 per cent zinc equivalent, including 2.1 million tonnes grading 5.6 per cent zinc equivalent and 1.9 million tonnes grading 5.79 per cent zinc equivalent metal.



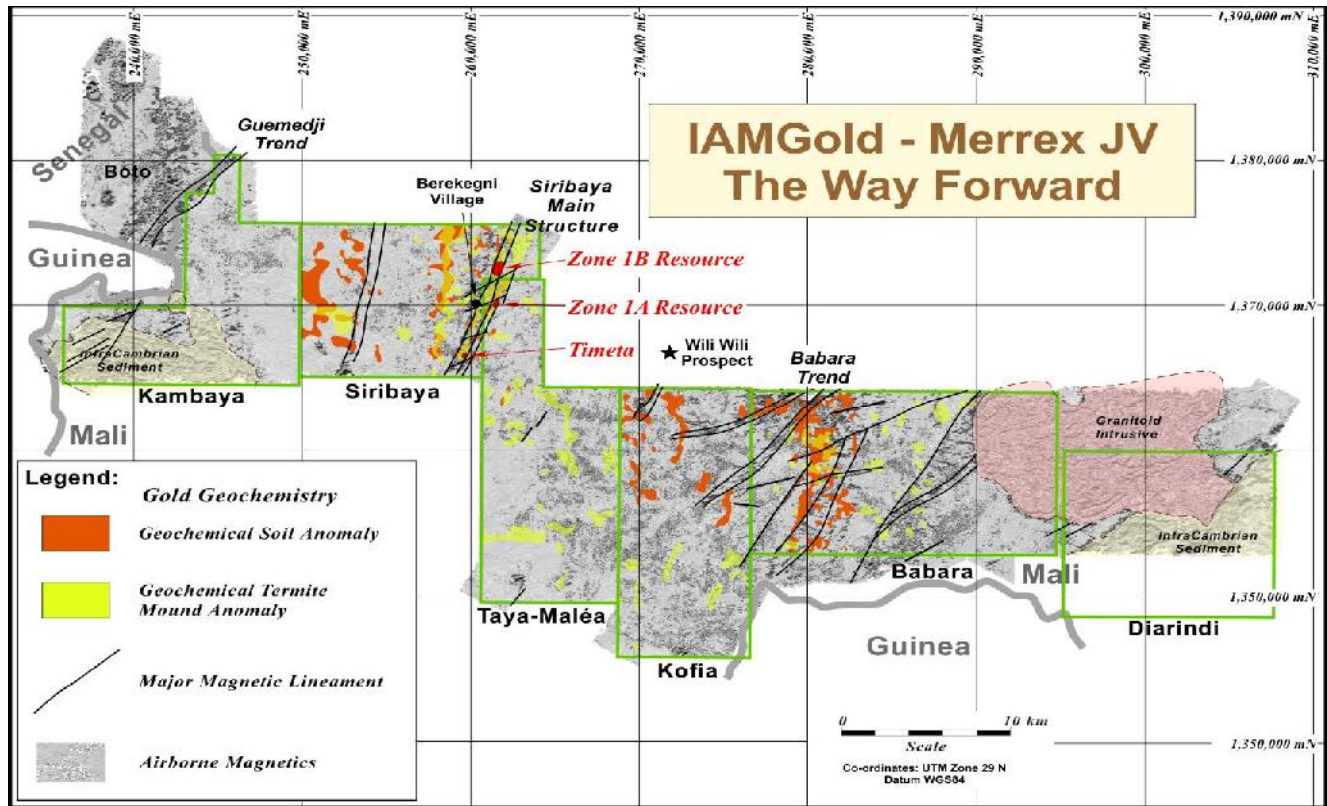
EXPLORATION ASSETS

Project	Location	NWI*	JV Partner	Stage	Deposit Type / Style	Indicated	Inferred
Siribaya	Mali	45%	IAMgold	Definition	Shear/Vein/Laterite Au	4Mt @ 2.4 g/t	1Mt @ 2.3 g/t
Jubilee	Nova Scotia	100%	n/a	Definition	Carbonate hosted Zn-Pb	-----	3Mt @ 3.8%

Notes to Table Above (Exploration Assets),

* Merrex controls Jubilee 100% subject to a 2% NSR to Teck –option to buy back 1% for \$1 million.

* Merrex currently controls Siribaya project 100%, but IAMgold is earning 50% by spending \$10.5 million by October 2012...of which it has spent \$6.8 million thru 2010...Malian government then gets 10% of producing projects (free carried interest), and may purchase up to an additional participating 10%...a private Malian company retains a 5% net profits interest/royalty.



NI 43-101 MINERAL RESOURCE ESTIMATES

-Siribaya Gold Deposit as of February 2010 (using a 0.5% cutoff)

-Jubilee Zinc-Lead Deposit as of November 2007 (using a 2.5% Zn cutoff)

INDICATED	Tonnes (Mt)	Au (gpt)	Zn (%)	Pb (%)	Oz, Au	Pounds, Zn	Pounds, Pb
Siribaya Zone 1B	3.9	2.40	n/a	n/a	302,551	n/a	n/a
Siribaya Zone 1A	0.1	1.85	n/a	n/a	5,591	n/a	n/a
Ttl Indicated	4.0	2.39	0	0	308,142	0	0
INFERRED	Tonnes (Mt)	Au (gpt)	Zn (%)	Pb (%)	Oz, Au	Pounds, Zn	Pounds, Pb
Siribaya Zone 1B	0.9	2.29	n/a	n/a	69,281	n/a	n/a
Siribaya Zone 1A	0.0	2.13	n/a	n/a	342	n/a	n/a
Jubilee (Nov 2007)	3.1	0.00	3.8%	0.9%	0	260,432,550	60,835,950
Total Inferred	4.0	0.54	3.8%	0.9%	69,624	260,432,550	60,835,950

FLAGSHIP	SIRIBAYA GOLD PROJECT
Location	West Mali Gold Belt, West Africa –in same rocks as mines operated by Randgold, IAMGOLD and Anglo, at the southeast end of the Kedougou-Kenieba inlier...project is comprised of 848 km ² of contiguous exploration permits collectively called “The Siribaya Gold Project.”
Terms	Merrex controls 100% of the Siribaya gold project. IAMgold is earning 50% by spending \$10.5 million over 4 years to December 23, 2012 (but vesting is now projected for the end of Q4 2011). IMAGOLD is the operator but a 50-50 joint management committee determines exploration programs. The deal required issuing 2 million shares to Touba SARL (Malian company) to acquire an outstanding 5% free-carried-interest in the project thus increasing Merrex's interest to 100%, and included a \$1.5 million private placement by IAMgold. The Malian government is entitled to a <i>free</i> carried interest of 10% (effective on production), and an <i>optional</i> 10-per-cent <i>participating</i> interest, and Touba Mining SARL retains a 5% net profit royalty (NPI).
Stage	Delineation and Definition Drilling –resource expansion
Deposit	Shear zone, Laterite, Saprolite hosted Gold system in Birimian aged greenstones
Geology	Underlain by northerly striking and steeply dipping Birimian rocks comprising calcareous metasediments, meta-siltstones and meta-greywackes. Mineralization is fracture-bound, and is hydrothermal in origin. Main target is a series of parallel substructures related to a 10.5km long mineralized shear structure(s) stepping northeast controlled by east-northeast-trending complementary shears. The 10.5 km Siribaya mega-structure contains two distinct substructures: the 10.5 km long 1B substructure and the 9.5 km long 1A substructure to the east of 1B. The substructures are interpreted to contain multiple smaller parallel gold-mineralized structures. Mineralization associated with these structures includes lenses developed in brecciated felsic volcanic rock and interbedded sediments and higher-grade hydrothermal breccia-style mineralization with a polymetallic assemblage. Other styles of mineralization include stockworks; veins and disseminated sulphides hosted by quartz feldspar porphyry and felsic dikes. The resource estimate was completed for the saprolite, saprock and fresh rock mineralization. Analysis of the sample statistics indicates that there is no evidence of near-surface supergene gold enrichment.
Previous Work	Regional geochem in nineties identified broad anomalous gold targets around old Orpailleur workings, especially around zone 1A that subsequently trenched 3.1 g/t over 35 meters...after 2005: soil geochem (15,000 samples), trenching, airborne magnetic spectrometer (22,785 line kilometers) & termite mound geochem sampling; 31,000 meters of RAB drilling (722 holes), 6,600 meters of recon diamond drilling (47 holes), 16,700 meters of detailed diamond drilling (66 holes), 4,823 meters of auger drilling (>200 holes) and 16,142 meters of RC drilling most recently (in over 100 holes). The company updated its NI 43-101 in February 2010 to include gold resources in two parallel zones (1A and 1B) over 900m of strike, <u>but has traced these zones by up to 3 km south and 1 km north...geochem and aeromag data, as well as drilling 7 kilometers south of zone 1B where they have identified another priority target by old workings, suggest the Siribaya mega-structure holds potential to host a world class gold system. Two kilometers west of the main Siribaya mega-structure, auger drilling by IAMGOLD has also traced a shallow laterite/saprolite hosted deposit (Bambadinka) over 4km of strike length (200-400 meter step outs with drill fences up to 1km wide with 20m hole spacing)...some 142km of gradient-array induced polarization (IP) and previous RAB drilling by Merrex Gold suggests the target is mineralized over twice that strike length, and that it may intersect the Siribaya mega-structure at the south margin. Exploration has <u>uncovered a new trend to the west of the Bambadinka trend, as well as substantial Siribaya-like structures east</u> (Babara permit).</u>
Current Work	<i>Merrex's joint venture partner IAMGOLD plans to drill up to 30,000 meters (RC drilling) in 2011 to confirm the continuity of the mineralization in the major substructures (1A & 1B) that has previously been traced for over 3 km of strike – only 900m of strike of these zones included in the resource estimate so far – and to extend the potential strike length further to 7 kilometers, establishing the “potential” for a 2-4 million ounce gold system at minimum (other work suggests the strike may extend 10km). Merrex is spending its own money on a 10,000m-diamond drill program with the objective of increasing the resource around</i>

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zones 1A and 1B possibly up to 1 million ounces by year end; as well, the joint venture will continue to explore new mineralized trends to the west (Siribaya West) and east (Babara) where geochem anomalies are even more intense and IAMgold has already set up camp.

Budget Expenditures to the end of 2010 at Siribaya total approximately \$14.8 million (\$8 million by Merrex plus \$6.8 million by IAMgold); IAMgold has budgeted over \$3 million for work in 2011 with vesting of 50% projected for the end of Q4 2011, a full year ahead of schedule. In addition, we estimate that Merrex will spend \$2.0-2.5 million of its own funds for a 10,000m resource expansion diamond drill program.

MANAGEMENT

DIRECTORS / MANAGEMENT

DIRECTORS:	TITLE	RELATED SINCE
Greg Isenor	Director, President & CEO	2005
John Cumming	Director, Vice President	2001
Dr James Patterson	Director	2005
Walter Henry	Director, CFO	2007
Jean-Marc Gagnon	Exploration Mgr Mali	2006

Gregory Isenor, BSc., P.Geo, President & Chief Executive Officer

- Company's qualified person NI 43-101
- Actively directed the Siribaya property acquisition and all exploration programs from 2005 to 2010
- +35 years experience in resource sector, globally
- Former President, CEO & Director of Jilbey Gold Exploration prior to 2005 takeover by High River Gold
- Founded Jubilee Minerals (private co) which was merged into Merrex Resources as an RTO
- Served as Director of PDAC for 12 years
- Currently also a director of Riverstone Resources and Frontline Gold where he's also the VP Exploration, and is also President & Director of Glencoe Resources Inc. and Vice President of Prince Edward Gas Inc; and is also a Director and past president of the Chamber of Mineral Resources of Nova Scotia

John Cumming, Vice-President and General Counsel

- Corporate, securities and mining lawyer (and businessman)
- Holds Masters in Laws (1993) degree from King's College, University of London (corporate / commercial)
- +30 years experience in securities markets and resource sector
- Was President of Merrex Resources Inc. prior to restructured into Merrex Gold in 2005-06
- Formerly President & Director of ComWest Enterprise Corp.,
- Actively engaged in developing Merrex Gold's corporate development, financial and communications strategies
- Director & President of Yaletown Entertainment –coproduced 150+ TV episodes – and was the senior securities and mining law partner at Vancouver law firm Boughton Peterson until 1992

9/29/2011

Dr. James M. Patterson, PGeo.

- +40 years exploration experience at all phases in Canada, Ireland, Thailand, Malaysia and Indonesia
- Participated in the discovery of mineral deposits in Ireland
- Immigrated to Canada in 1978 to work on a lead mine in Nova Scotia
- Former Director of Jilbey Gold Exploration prior to its takeover by High River Gold Mines in 2005
- Currently a Director of Garson Gold Corp. and International Millenium Mining Corp
- Former Director of Hornby Bay Exploration Ltd., Crowflight Minerals Inc. and Mispic Resources Inc, and former Executive VP and Consultant to FNX Mining Company Inc from its early days to maturity
- Obtained his Ph.D. in Mining Geology from the Royal School of Mines, London University, England
- Founding President of the Irish Association for Economic Geology
- Dr. Patterson has written numerous publications on mineral exploration and environmental frameworks.

Walter Henry, BA, CFA

- Experience in corporate finance transactions and controls
- President and Director of Frontline Gold Inc.
- Formerly CFO of Royal Nickel, Juno Special Situations Corp and Director of Cons Westview Resource
- Formerly CFO of Alturas Minerals and Tiberon Minerals, Manager at CIBC World Markets, and assistant VP of Mining & Infrastructure, Financial Advisory Services Group of Price Waterhouse Coopers Securities

Jean-Marc Gagnon, Exploration Manager, Mali

- ~30 years experience in mining sector (since 1980) supervising drill programs in Africa
- Geological Engineer and holds his MBA designation (1999) from Université Laval
- Formerly consultant (and GM) at Emerging Africa Gold, Major Drilling Int'l and Golden Star Resources

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