



Rockstone

Research

July 24, 2018

Report #28

Rare Earth Elements, Tantalum,
Niobium in Canada



The Senkaku boat incident in September 2010 was the catalyst for a Chinese embargo on rare earths, leading to a historically strong upswing in prices. ([Picture source](#))

The Catalyst for a New Bull Market in Rare Earths

SENKAKU 2 – Total Embargo

This summer's blockbuster, playing in every home, is the return of a bull market in REEs ("Rare Earth Elements") caused by the Trump Administration applying tariffs on goods from China. I am calling it "Senkaku 2" as the next embargo on REEs is, again, just a seemingly trivial incident away.

You may remember that Japan's coast guard arrested an errant Chinese fishing boat captain in September 2010, with the result of a total embargo on REE shipments to Japan causing REE prices to go up as much as 3,000% almost overnight.

Consider the economic impact of Japan arresting one Chinese national, and compare that to the billions of dollars, and trillions of yuan, in economic impact of the new tariffs, and then ask yourself: What is China likely to do now?

How about another total embargo of all key resources from China?

Whatever the incident will be this time, if any at all, China is about to strike back with a retaliatory response that may very well involve REEs and other commodities deemed critical for the economic and national security of the United States.

In a trade war with China, there will not only be losers but also winners – and it is not hard to see who they will be, although global media just seems to focus on the losers right now.

One of the winners is certainly going to be the mineral exploration industry outside of China, as the United States – and perhaps the Western World – realigns commodity distribution routes. While the stage is set, the time to act has come, for nations and investors alike.

Company Details



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Shares Issued & Outstanding: 310,496,558



▲Chart Canada ([TSX.V](#))

Canadian Symbol: CCE
Current Price: \$0.06 CAD (07/23/2018)
Market Capitalization: \$19 Million CAD



▲Chart Germany ([Tradegate](#))

German Symbol / WKN: D7H / A0J2Q3
Current Price: €0.039 EUR (07/23/2018)
Market Capitalization: €12 Million EUR



The escalating trade war between China and the US puts the spotlight on a number of commodities in Zimtu Capital's portfolio – REEs, tantalum, niobium, magnesium, fluorspar, and lithium – and certainly presents a tremendous opportunity for growth in the exploration and mining sector.

This trade war is going to focus attention on the exploration industry to discover and develop new sources of supply in friendly jurisdictions. This will be particularly effective for the REE and battery metals sector, which are heavily dominated by China.

I am not alone with my contention that it is Trump's full intention to engage in an all-out trade war with China.

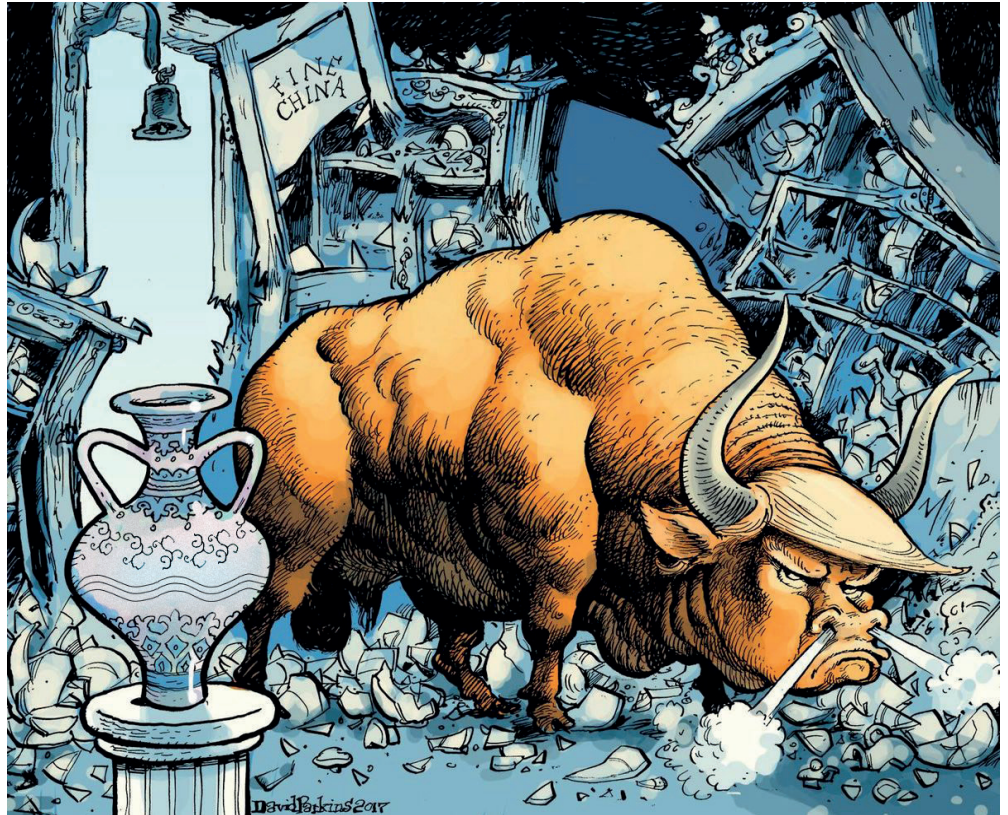
It should come as no surprise that China is seen by the US as an unreliable supplier of resources, and that market manipulation is endemic with the Chinese. I strongly believe that the latest tariffs are the catalyst that will direct focus on other, more attractive sources for these commodities, such as Canada.

Trump Steals China's Trump Card

Recently on July 10, the Trump Administration quietly [released](#) the 3rd round of trade tariffs in a document that runs to 200 pages, with ~40 line items per page, including all kinds of raw materials, commodities and finished products.

Most interestingly for Commerce Resources Corp., "permanent magnets and articles intended to become permanent magnets" as well as all kinds of "rare-earth metals, whether or not intermixed or alloyed", "mixtures of rare-earth oxides or of rare-earth chlorides" and "compounds, inorganic or organic, of rare-earths" are found on this list.

Also, tariffs on niobium and tantalum are applied, making Commerce Resources, as well as its joint venture partner Saville Resources Inc., all the more attractive to look at for investors (see report "[Saville Releases High-Grade Assays from the Niobium Claim Group](#)").



Oftentimes, President Trump is pictured as a rash bull in the china shop, however only rarely he is recognized bullish for rare earth prices and the pressing need for the establishment of a self-reliant mining and manufacturing industry on the North American continent. (Above picture, slightly amended, sourced from [The Globe and Mail](#))

Total Trade War, Tariffs and Tofu for Thought

Ryan Castilloux, Managing Director of [Adamas Intelligence](#), an independent research and advisory firm, provided the following statement:

"The tariffs are good news for emerging rare earth producers outside of China. The tariffs will boost rare earth prices in North America by a minimum of 10% by as early as next week. This will bolster the economics of advanced rare earth development projects in North America, and particularly those in Canada given the persistently low value of the Canadian dollar relative to the U.S. For end-users of rare earths in the U.S., the tariffs are undoubtedly cause for concern. With the prolonged imposition of tariffs, and potential for further increases down the road, we expect the current trade war will spur many end-users in the U.S. to take a serious look at potential sources of supply closer to home – if not because of China uncertainty, than perhaps because of U.S. unpredictability."

It may seem dull to start putting tariffs on commodities like REEs that are deemed critical to the economic and national security of the United States. However, consider this argumentation recently contributed on [Forbes](#):

"China, of course, currently produces more than 90% of the world's supply of rare earth materials and obviously prioritizes its own domestic customers. Defense wise, rare earths are vital to the sophisticated technologies that our [Military increasingly depends](#) on to keep us safe, such as missile guidance and control systems, disk drive motors, lasers, satellite communications, radar, night vision goggles, armored vehicles, and other essential equipment..."

The U.S. shale [oil](#) and [natural gas](#) revolution since 2008 demonstrates how quickly we can grab control of our own natural resource future, with our goal for policies to support constantly evolving technologies. There's no reason why our mineral supply system shouldn't be allowed to follow suit."



Fortunately, the Trump administration seeks to change our surging import reliance on these materials, [signing an executive order to expand critical minerals production](#)... With national security at risk, the time for action is now."

[Roskill](#) cuts right to the chase:

"The implementation of further tariffs to rare earth compounds and metals & alloys would be required to support the development of a domestic rare earth mining and processing industry in the USA... Further tariffs could even promote the transfer of manufacturing capacity outside of the USA..."

Since the [Hyde Park Agreement](#) of 1941, Canada is probably the single most important ally for the US, such that "in mobilizing the resources of this continent each country should provide the other with the defense articles which it is best able to produce."

Simon Moores, Managing Director of renowned [Benchmark Mineral Intelligence](#) provided the following statement:

"There is no doubt that President Trump's tariffs are the most significant geopolitical action in the speciality mineral space since the rare earths crisis of 2010 when China blocked rare earths export to Japan. Not only have rare earth elements been targeted but also lithium, cobalt and graphite – crucial minerals for electric vehicles and hi tech and military equipment. Such a wide sweeping action is quite incredible. This action puts North American resources and US mineral supply security firmly back on the agenda after nearly a decade."

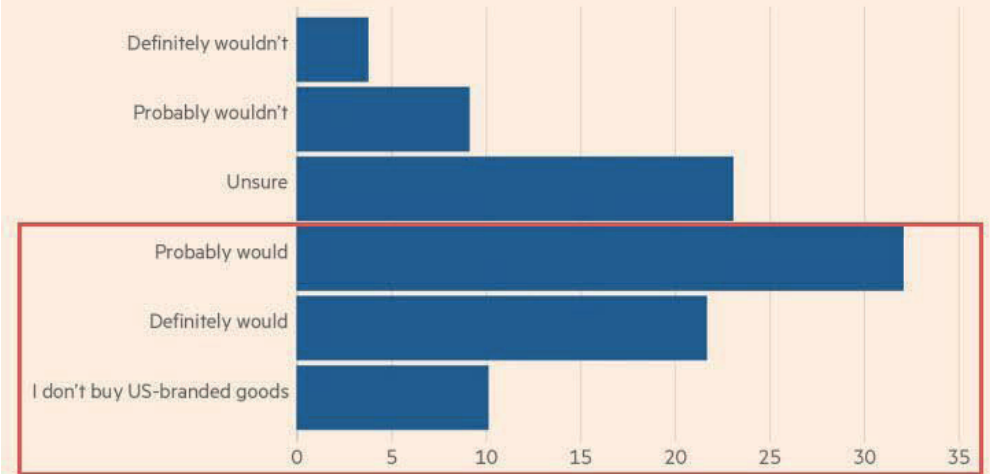
Chris Berry, Founder and President of New York based research and advisory firm House Mountain Partners LLC and [independent analyst](#) with focus on energy metals supply chains including rare earths, provided the following statement:

"It is clear that there is a real lack of coherence to the tariff strategy and it's

Most Chinese would back a boycott of US goods

% of responses

Q: In the event of a trade war with the US, would you stop buying US-branded goods?



Survey of 2,000 urban consumers in more than 300 cities across China, conducted between Jun 27 and Jul 10

Source: FTCR

© FT

safe to assume collateral damage will flow to consumer balance sheets should events escalate. The basic fact, however, is that China just doesn't import as many goods as the United States does and since these tariffs are focused on exports, the tools the Chinese could use to retaliate are really limited to in-kind tariffs, currency depreciation, or selectively flexing its muscles around natural resource export strategies like we saw in 2011 with rare earths, though this may violate WTO rules."

As China runs out of tariff bullets to fire, it must turn to embargoes and boycotts. China has repeatedly used boycotts and embargoes as cards in its geopolitical strategy. We may just haven't noticed it.

A Chinese embargo of REE to Japan (the Senkaku Incident) caused the REE crisis of 2010-2012. A Chinese embargo of Japanese cars in 2012 caused [Japanese car exports to plunge](#) in the 12 months that followed. A Chinese embargo on [numerous South Korean exports](#) in 2017 led to complete, unequivocal victory for China.

A recent Financial Times poll shows that the China state media 'boycott' war drum has already started beating, as above poll table shows.

If threats of a boycott don't make Trump blink – and they won't – then China will launch its embargo torpedoes; not all at once, but one after the other. Each one of them will be massively impactful. REE may well be the first.

A key point is that the embargoes may not only be against the USA, but against its allies. The Senkaku Incident targeted Japan, not the USA, but we all know the effect. China remembers that. One does not have to officially embargo to actually embargo. One can simply have "not enough to share with everyone else".

China has been warming up the reduced REE supply story for almost a year already. One REE operation after the other has been taken offline in the name of environmental concerns or so-called illegal mining practices. [In early July](#), operations at the Guangxi Rare Earth Mine in southern China were suspended after inspectors found the breaching of environmental rules. On top of that, inspectors in another of China's rare earth hubs, Baotou in Inner Mongolia, had found that mining slag was being dumped illegally.

China's Ministry of Ecology and Environment is implementing new



measures to crack down on the pollution of rare earth mines, obviously not being shy to shut down mines and to eventually trigger higher prices due to supply constraints.

And then there is Chinese de facto control of resources outside of China, in most of Africa for instance. Currently, Chinese President Xi Jinping [visits 5 Arab and African countries](#). Yesterday, he met with Rwandan counterpart, Paul Kagame, [to further promote bilateral cooperation](#). Why? Mining is Rwanda's biggest source of export revenues, first and foremost tantalum, tin and tungsten.

Major Bull Market in REEs Ahead?

In order to promote the establishment of the REE mining and downstream sector in North America, a major repricing of REEs would be helpful as prices have been artificially suppressed by China for decades.

REE production in China has been incentivized by subsidizing its mining and manufacturing sectors.

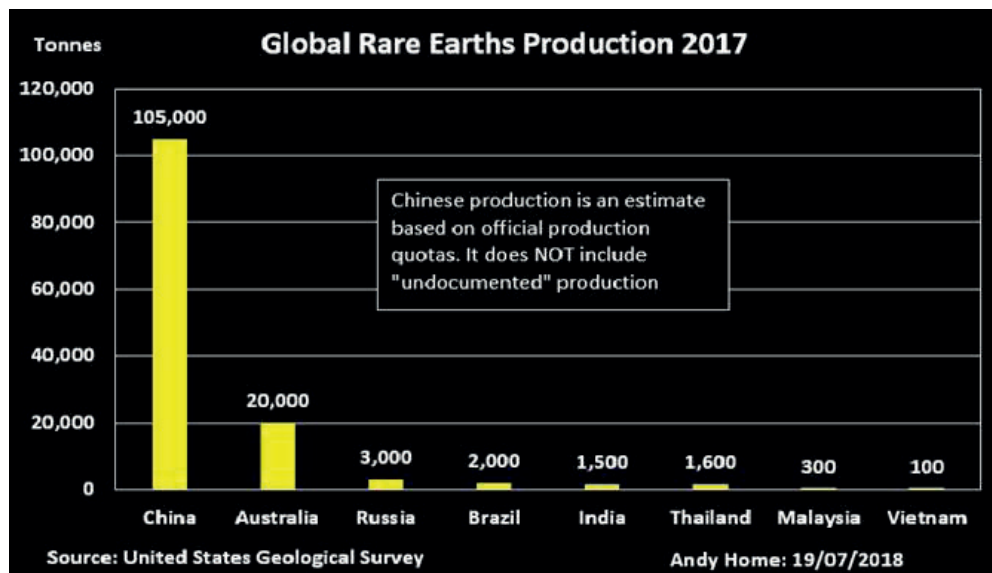
The new tariffs applied by the US, as well any direct or indirect embargoes by China, may force a major revaluation of REE prices. As Wayne Gretzky put it:

“Skate to where the puck is going, not where it has been.”

In other words: Those investors brave enough to position themselves before the storm of the masses hits the markets may bank the lion's share of profits to be made.

Commerce Resources, among others in the Zimtu portfolio, could very well evolve as a winner.

If indeed REE prices are set for a strong rebound, investor's interest should return to the REE exploration sector, quickly realizing that there does not exist many promising REE development projects and that Commerce Resources' Ashram REE Deposit is seen as best in class to supply those key REEs that the market needs.



Source: *“Tariffs lay bare Washington's rare earths dilemma,”* Reuters on July 19, 2018

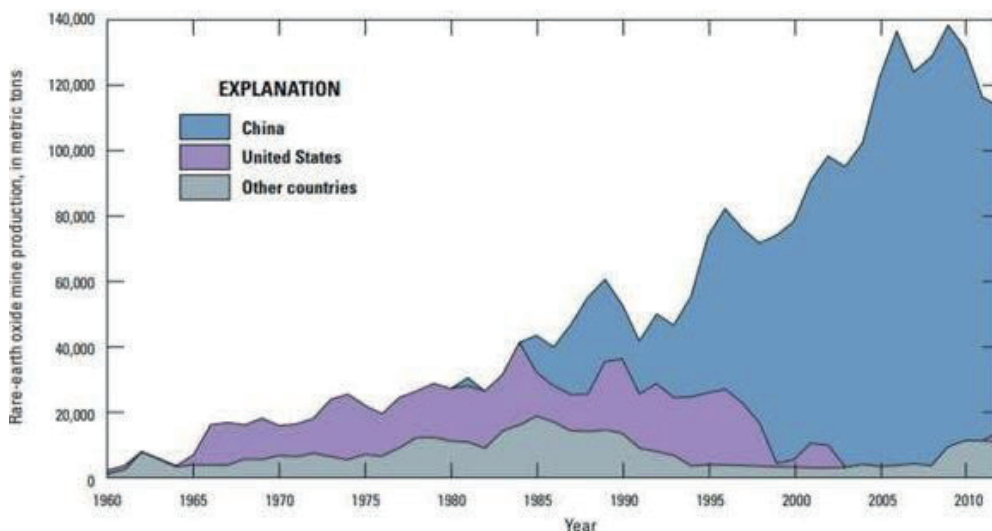


Figure 01. Graph showing world mine production of rare-earth oxides, by country and year, from 1960 to 2012. The layers of the graph are placed one above the other, forming a cumulative total. Data are from U.S. Bureau of Mines (1961–96) and U.S. Geological Survey (1997–2016).

Great News from Québec

Today, Commerce [announced](#) the first ever production of a mixed rare earth oxide concentrate from material of the Ashram REE Deposit in Québec.

This independent success was achieved by Québec City's Université Laval, a public research university founded in 1663 and thus the oldest centre of higher education in Canada.

The test work, which includes pilot level components, is fully funded through a grant provided by Québec's [Ministère de l'Économie, de la Science](#)

[et de l'Innovation](#), whose mandate is to “advise the Government with a view to favouring economic development in every region of Québec”.

Today's landmark news is just another brick in the wall of building the best REE project outside of China, for the full benefit of the Western World becoming independent with a long-term supply of key REEs needed for economic and national security.

Therefore it is argued that the Ashram REE Project could now evolve as a key piece of the puzzle in “Making America Great Again”.



Commerce Resources' President, Chris Grove, explains the significance of today's announcement:

"The rapid progress of this collaboration, now includes the first ever mixed rare earth oxide concentrate produced from Ashram Deposit material. This is a key milestone for the advancement of the Project. This test work has demonstrated again the versatility of the Ashram Deposit to be processed by a number of different flowsheet approaches."

Recall what was emphasized last December in a report entitled ["The Good Times are Back in the Rare Earths Space"](#):

As we like to say "it's the early bird that gets the worm, but it's the 2nd mouse that gets the cheese" meaning, as huge profits are being made by some investors in the battery metals space, all investors should be looking for that next big win, which is arguably going to be the REEs.

The overall number of REE juniors, still active on their projects, is a fraction of what it was in the heyday of 2011, whereas the market looks much more robust and poised for a healthy long-term upward trend in prices and demand for the future.

The opportunity has clearly arrived and has never looked as promising and sustainable as today. While everyone has focused on lithium and cobalt for the "Electric Revolution", it's clearly the REEs which have been overlooked and will potentially now provide profits to those invested in this sector.

While there are hundreds of juniors and seniors actively pushing into the once-niche metal markets of lithium and cobalt, there is barely a handful of REE companies at which investors could possibly look for a meaningful exposure.

Of greatest importance, over the same time period (late 2010 until now) the demand for REEs has steadily increased mostly due to the ascendancy of the "green revolution" focusing on renewable sources of energy, primarily wind (which require REEs), and for the

adoption of electric vehicles (which require REEs). This increase of demand came at the same time as the prices continued to revert – and while all REE juniors attempted to achieve positive metallurgy.

In this regard, only a very few were successful, first and foremost Commerce Resources with the advancement of its Ashram REE Project towards Pre-Feasibility Study.

Bottom Line

Soon, the market may realize that Commerce Resources' advanced-stage Ashram REE Deposit is "the place to be" as it can compare favorably to the Chinese REE mines for the simplest of reasons: The fact that the Ashram Project has the same geology and basic mineralogy as have the dominant Chinese REE projects.

The capability of producing a saleable mixed rare earth oxide concentrate – with a simple flowsheet – is [one of the more important aspects](#) to look at when searching for the next REE mine to be developed.

Likewise, other companies in the Zimtu portfolio, such as Saville Resources advancing a potentially high-grade niobium and tantalum project as a joint venture partner with Commerce Resources, should not be overlooked and offer tremendous upside.

Zimtu is increasingly turning out as a "one-stop shop" for key commodities in friendly jurisdictions.

Incidentally, you don't want to miss that boat.



Updated Chart: <http://schrts.co/eEUD9r>

Previous Coverage

[Report #27](#) "Technological Breakthrough in the Niobium-Tantalum Space"

[Report #26](#) "Win-Win Situation to Develop One of the Most Attractive Niobium Prospects in North America"

[Report #25](#) "The Good Times are Back in the Rare Earths Space"

[Report #24](#) "Commerce Resources and Ucore Rare Metals: The Beginning of a Beautiful Friendship?"

[Report #23](#) "Edging China out of Rare Earth Dominance via Quebec's Ashram Rare Earth Deposit"

[Report #22](#) "Security of REE Supply and an Unstoppable Paradigm Shift in the Western World"

[Report #21](#) "Commerce well positioned for robust REE demand growth going forward"

[Report #20](#) "Commerce records highest niobium mineralized sample to date at Miranna"

[Report #19](#) "Carbonatites: The Cornerstones of the Rare Earth Space"

[Report #18](#) "REE Boom 2.0 in the making?"

[Report #17](#) "Quebec Government starts working with Commerce"

[Report #16](#) "Glencore to trade with Commerce Resources"

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[Report #11](#) "Rumble in the REE Jungle: MolyCorp vs. Commerce"

[Report #10](#) "Interview with Smith and Grove while the Graveyard of REE Projects Gets Crowded"

[Report #9](#) "The REE Basket Price Deception & the Clarity of OPEX"

[Report #8](#) "A Fundamental Economic Factor in the Rare Earth Space: ACID"

[Report #7](#) "The Rare Earth Mine-to-Market Strategy & the Underlying Motives"

[Report #6](#) "What Does the REE Market Urgently Need? (Besides Economic Sense)"

[Report #5](#) "Putting in Last Pieces Brings Fortunate Surprises"

[Report #4](#) "Ashram: The Next Battle in the REE Space between China & ROW?"

[Report #3](#) "Rare Earth Deposits: A Simple Means of Comparative Evaluation"

[Report #2](#) "Knocking Out Misleading Statements in the Rare Earth Space"

[Report #1](#) "The Knock-Out Criteria for REE Deposits: Cutting the Wheat from the Chaff"



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All statements in this report, other than statements of historical fact should be considered forward-looking statements. Much of this report is comprised of statements of projection. Statements in this report that are forward looking include that REE and metal prices are expected to rebound; that a total embargo on rare earths is just an incident away, if any incident at all; that Commerce Resources Corp. or its partner(s) can and will start exploring further; that exploration has or will discover a mineable deposit; that the company can raise sufficient funds for exploration or development; that any of the mentioned mineralization indications or estimates are valid or economic; that the time to act has come, for nations and investors alike; that the escalating trade war between China and the US puts the spotlight on a number of commodities, and companies, in Zimtu Capital Corp.'s portfolio, and certainly presents a tremendous opportunity for growth in the exploration and mining sector; that this trade war is going to focus attention on the exploration industry and that this will be particularly effective for the REE and battery metals sector; that the latest tariffs make Commerce Resources Corp., as well as its joint venture partner Saville Resources Inc., all the more attractive to look at for investors; that the new tariffs applied by the US may force a major revaluation of REE prices; that those investors brave enough to position themselves before the storm of the masses hits the markets may bank the lion's share of profits to be made; that Commerce Resources, among others in the Zimtu portfolio, could very well evolve as a winner; that investor's interest should return to the REE exploration sector if indeed REE prices are set for a strong rebound, quickly realizing that there does not exist many promising REE development projects and that Commerce Resources' Ashram REE Deposit is seen as best in class to supply those key REEs that the market needs; that today's news from Commerce Resources is just another brick in the wall of building the best REE project outside of China; that the Ashram REE Deposit could now evolve as a key piece of the puzzle in "Making America Great Again"; that the market may soon realize that Commerce Resources' advanced-stage Ashram REE Deposit is "the place to be" as it can compare favorably to the Chinese REE mines; that Commerce has the capability of producing a saleable mixed rare earth oxide concentrate with a simple flowsheet, which is one of the more important aspects to look at when searching for the next REE mine to be developed; that other companies in the Zimtu portfolio, such as Saville Resources, should not be overlooked and offer tremendous upside; that Zimtu is increasingly turning out as a "one-stop shop" for key commodities in friendly jurisdictions; that you don't want to miss that, or any, boat. Such statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in these forward-looking statements. Risks and uncertainties respecting mineral exploration and mining companies are generally disclosed in the annual financial or other filing documents of Commerce Resources Corp. and similar companies as filed with the relevant securities commissions, and should be reviewed by any reader of this report. In addition, with respect to Commerce Resources Corp., a number of risks relate to any statement of projection or forward statements, including among other risks:

the receipt of all necessary approvals and permits; the ability to conclude a transaction to start or continue development; uncertainty of future REE and metal prices, capital expenditures and other costs; financings and additional capital requirements for exploration, development, construction, and operating of a mine; the receipt in a timely fashion of further permitting for its legislative, political, social or economic developments in the jurisdictions in which Commerce Resources Corp. and Saville Resources Inc. carry on business; operating or technical difficulties in connection with mining or development activities; the ability to keep key employees, joint-venture partner(s), and operations financed. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking information. Rockstone and the author of this report do not undertake any obligation to update any statements made in this report unless required by law.

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Stephan Bogner studied at the Inter-



national School of Management (Dortmund, Germany), the European Business School (London, UK) and the University of Queensland (Brisbane, Australia).

Under supervision of [Prof. Dr. Hans J. Bocker](#), Stephan completed his diploma thesis ("Gold In A Macroeconomic Context With Special Consideration Of The Price Formation Process") in 2002.

A year later, he marketed and translated into German Ferdinand Lips' bestseller ("Gold Wars"). After working in Dubai for 5 years, he now lives in Switzerland and is the CEO of [Elementum International AG](#) specialized in duty-free storage of gold and silver bullion in a high-security vaulting facility within the St. Gotthard Mountain Massif in central Switzerland.

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