



# Rockstone Research

April 7, 2016

## Research #16

Rare Earth Elements (REEs)



Victoria Hall (Geneva, Switzerland)

# Glencore to trade with Commerce Resources

Today, Commerce Resources Corp. has announced entering into a MOU with NorFalco, one of North America's largest suppliers of sulphuric acid, which is one of the largest consumables in the flowsheet of Commerce's Ashram REE Project in Quebec, Canada. NorFalco, a division of Glencore Canada Corp., trades about 2 million tonnes of sulphuric acid annually. According to the agreement, NorFalco wants to be the sole provider of sulphuric acid for Ashram and sell it to Commerce at highly competitive prices and terms.

## Company Details

Commerce Resources Corp.

#1450 - 789 West Pender Street

Vancouver, BC, Canada V6C 1H2

Phone: +1 604 484 2700

Email: [cgrove@commerceresources.com](mailto:cgrove@commerceresources.com)

[www.commerceresources.com](http://www.commerceresources.com)

Shares Issued & Outstanding: 234,409,864



Chart Canada (TSX.V)

Canadian Symbol: CCE

Current Price: \$0.065 CAD (April 6, 2016)

Market Capitalization: \$15 million CAD



Chart Germany (Frankfurt)

German Symbol / WKN: D7H / A0J2Q3

Current Price: €0.041 EUR (April 6, 2016)

Market Capitalization: €10 million EUR

Technical Analysis:

Since 2001: <http://schrts.co/wR62L5>

Since 11/2013: <http://schrts.co/kAtslu>



It is not hard to see the depth and reasoning behind such an agreement as Glencore is far more than a sulphuric acid supplier as they made a ~\$2 billion profit last year. Glencore trades over 90 commodities, including fluorspar, which Commerce has recently identified as a potential by-product. The fluorspar supply market is dominated by China and Mexico with essentially no production from the USA or Canada although there is significant consumption in that part of the world. Commerce and its Ashram Project may be uniquely positioned to capitalize on this geographic “hole” in supply, with Glencore as their partner.

Today’s deal is, at a minimum, a strong vote of confidence from a major industry player that Commerce’s Ashram Project has legs and is well positioned to advance to production.

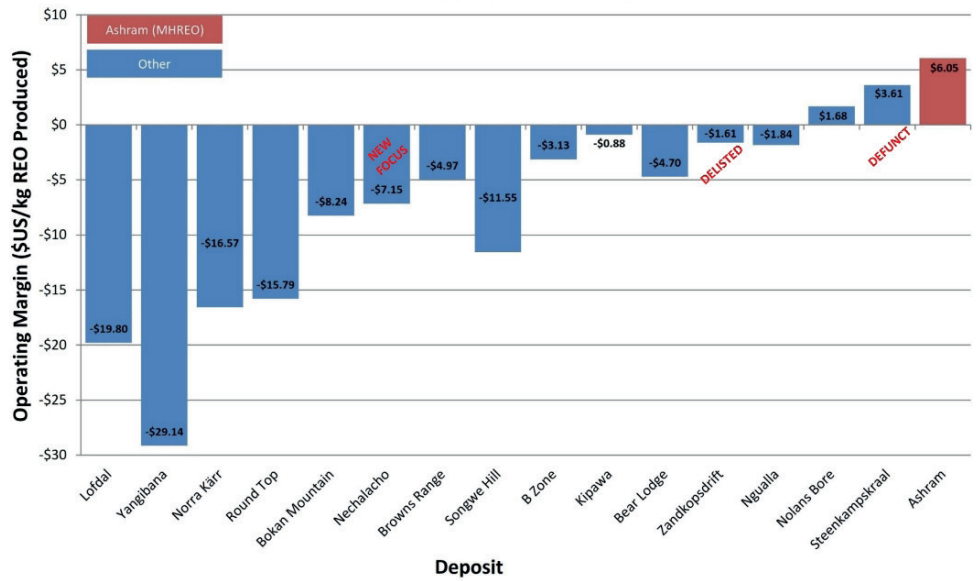
Chris Grove commented in today’s [news](#):

*“We are very excited to be working with NorFalco, an industry leader in marketing, trading, and distribution of sulphuric acid. This agreement is a significant first step in what we expect to be a meaningful ongoing supply relationship with NorFalco. The nature of this agreement today is that it is a benefit to the Ashram Project with favourable pricing for one of the largest project consumables. We look forward to working with NorFalco.”*

The high discount on the market price of sulphuric acid, the largest consumable in Ashram’s processing, will be incorporated into the ongoing Pre-Feasibility Study (PFS), with costs and benefits to be described in more detail therein. Additionally, fluorspar as a potential by-product will be included in the PFS (not considered in the 2012-PEA), which has the potential to increase operating margins even further.

As both graphs from [December 2015](#) show, Ashram’s projected OPEX are already projected to be the lowest of a select peer group, whereas its operating margins are not only the highest but more importantly positive, i.e. projected to make a profit even at current low REE market prices, which may sound like music to the ears of some majors.

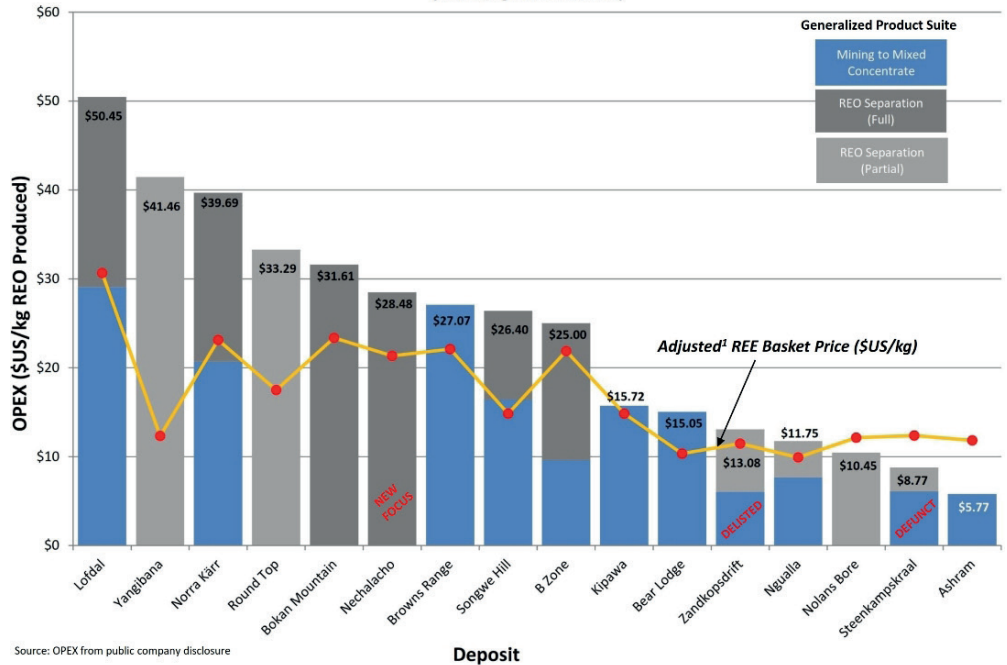
Operating Margin for Select Advanced-Stage Rare Earth Deposits (in \$US/kg REO Produced)



Source: OPEX from public company disclosure

1. Operating margin is approximated from Adjusted REE Basket Price (i.e. revenue) minus OPEX (i.e. cost of production)

OPEX for Select Advanced-Stage Rare Earth Deposits (in \$US/kg REO Produced)



Source: OPEX from public company disclosure

1. Discount of 30% (mixed con), 20% (partial separation), or 0% (full separation) applied to basket price to reflect targeted product suite and allow for approximate, normalized comparison  
 2. OPEX has been normalized to USD using AUD and CAD exchange rates of 0.73 and 0.72 respectively

When Commerce achieved a 42% TREO mineral concentrate at 76% recovery ([October 19, 2015](#)), it also resulted in a fluorspar concentrate with a grade of ~75% CaF2 (“met-grade”, i.e. metallurgical grade) at 80% recovery. This information was published on [March 1, 2016](#). Commerce also disclosed that they will work towards the production of samples from its pilot plant for evaluation.

It will be very interesting to see if this news from today is the start of a series of deals with other companies who see this news as being the fundamental “turning point” for the Ashram project – the point after which these other companies may need to express their interest in working also with Commerce, the point at which we will say they will “put their money where their mouth is”.





## About NorFalco



[NorFalco](#) is a company built from the combined histories of Noranda, Falconbridge, Xstrata and Glencore. In 2013, Xstrata merged with Glencore to form one of the world's largest global diversified natural resource companies. NorFalco Inc. is headquartered in Seven Hills, Ohio, with a subsidiary, NorFalco Sales Inc., in Mississauga, Ontario.

NorFalco is one of North America's largest traders of sulfuric acid, responsible for the marketing and distribution of about 2 million tonnes per year. Through parent company Glencore, NorFalco has exclusive access to sulfuric acid production from four major North American production facilities and to an unrivaled global sulfuric acid supply and trading network. Additionally, NorFalco has offtake agreements with several other Producers outside of the Glencore group. Norfalco's fully integrated distribution network, comprising of rail cars, trucks, barges, vessels, trans-load terminals and import terminals, is one the most expansive and reliable networks in North America. These production, marketing, and distribution strengths help ensure excellent reliability to a diverse range of consumers across more than 20 different industries. The company is a Responsible Care® company with the Chemistry Industry Association of Canada. NorFalco is committed to delivering "More than H2SO4". This means delivering customer solutions that make it easy to order, receive and use sulfuric acid in a safe and reliable manner.

Sulfuric acid is a powerful, virtually irreplaceable constituent of countless industrial processes. It is used in the manufacture of products such as fertilizers, paints and pigments, explosives, pulp and paper, plastics, detergents, textiles, batteries and a variety of specialty chemicals. It is also used for processing mineral ores, metal refining, petrochemical processing and water treatment. NorFalco markets sulfuric acid in strengths



from 93% to 99% concentration. From the four plants of our parent Glencore and Noranda Income Fund, we ship about 2 million tons of sulfuric acid per year by road, rail and vessel, safely delivering tens of thousands of shipments annually. The plants produce sulfuric acid in a variety of grades meeting industry standard requirements such as Technical, Commercial and Battery Electrolyte.

Our commitment to delivering more than H2SO4 means:

- Reliable and secure supply
- Safe deliveries and Responsible Care
- Technical support delivered to customers' sites
- 24/7 customer service support
- Dependable multiple-plant sourcing
- Consistent quality
- Multi-modal logistics system
- Extensive terminal network
- Experienced sales force
- Direct working relationship with the producer
- Access to Glencore's global supply network

More information: [www.norfalco.com](http://www.norfalco.com)

## About Fluorspar

Approximately two-thirds of the fluor-spar market is acid-grade, which is primarily used in the production of aluminum and in the manufacture of hydrofluoric acid. The remaining one-third of the market is dominated by met-grade which is primarily used as flux in steel making to lower melting temperature and remove impurities. China, and to a lesser extent Mexico, dominate global fluorspar production which is estimated by the USGS to be approximately 6.9 million tonnes per annum (2014).

## Analyst Coverage

[Research #15](#) "First Come First Serve"

[Research #14](#) "Q&A Session About My Most Recent Article Shedding Light onto the REE Playing Field"

[Research #13](#) "Shedding Light onto the Rare Earth Playing Field"

[Research #12](#) "Key Milestone Achieved from Ashram's Pilot Plant Operations"

[Research #11](#) "Rumble in the REE Jungle: Molycorp vs. Commerce Resources – The Mountain Pass Bubble and the Ashram Advantage"

[Research #10](#) "Interview with Darren L. Smith and Chris Grove while the Graveyard of REE Projects Gets Crowded"

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

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

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

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

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

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

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

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

[Research #1](#) "The Knock-Out Criteria for Rare Earth Element 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 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. 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. carries 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.

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Stephan Bogner studied at the International 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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