TORMONT50 Tormont50 Growth Report

Tormont50: Identifying timely topics and trends in the sub-$200 million market.

Growth Report Type: *Emerging* **Timeliness:** *Current* **Date:** *July 16, 2020*

Commerce Resources Corp.

CCE $0.215

TSX Exchange | OTC:CMRZF | FRA:D7H0 | Market Cap $11M

Description: Micro-cap Commerce Resources Corp. (CCE) owns 100% of the Ashram rare earth deposit in northern Quebec. Ashram represents one of the world's largest, most valuable and best-located resources of rare earth elements. Given Ashram's favorable mineralogy and geology (see pages 2-5), CCE will be able to produce a rare earth mineral concentrate which is richer than other worldwide deposits in the most valuable rare earth oxides, termed "Magnet Feed REOs." These materials, for which there are no practical substitutes, are widely used in critical industries, such as magnets in the engines of electric vehicles (see page 3). Overall annual global sales of REOs and rare earth metals are US$3 billion to US$5 billion and rapidly expanding.

One of the most compelling parts of CCE's business opportunity is that Ashram's resources, coupled with rare earth processing facilities that may begin operating in the U.S. in the next year or so, could allow western companies and governments to begin sourcing rare earth oxides (REOs) and rare earth metals from a friendly and reliable source other than China. China currently controls about 80% or more of the worldwide rare earth refining capacity (e.g., the capacity to transform rare earth mineral concentrates into REOs and rare earth metals).

As the Ashram Project moves closer to production, CCE, with a total enterprise value of $11 million, could become a key player in the rare earths industry. As investors begin to appreciate CCE's potential, its valuation could expand dramatically. It is important to note that CCE plans to process and refine Ashram's resources using proven technical steps and methods used in other parts of the world -- primarily in China, but also in France, Estonia, Malaysia, the UK, and Norway.

CCE's Ashram Rare Earth Element and Fluorspar Deposit: CCE owns 100% of the Ashram Project, one of the most strategically important, largest and highest-grade rare earth element resources in the world. Ashram, which is located in the Nunavik territory in northern Quebec, has nearly 250 million tonnes of resources (on combined measured, indicated and inferred bases) with average total REO grades of 1.77%-1.90%. See Figure 1.

Figure 1: <u>Ashram Project Overview</u>

Attractive Jurisdiction

- Northern Quebec (Nunavik territory), Canada
  - ~130 km south of Kuujjuaq, the administrative centre of Nunavik
- Territory is under treaty (JBNQA & NEQA)
  - Modern agreement with clear mechanisms in place for indigenous dialogue, consultation, and resource management

100% Ownership of Project

Advancing Infrastructure

- Quebec government's Société du Plan Nord mandated to promote investment in northern development
  - Energy & Mineral resource development
  - Transportation infrastructure & access

Investment of Ressources Québec

- Direct equity investment of $1 M CAD on February 17, 2017

***Source:* <u>*Commerce Resources Corp.*</u>**

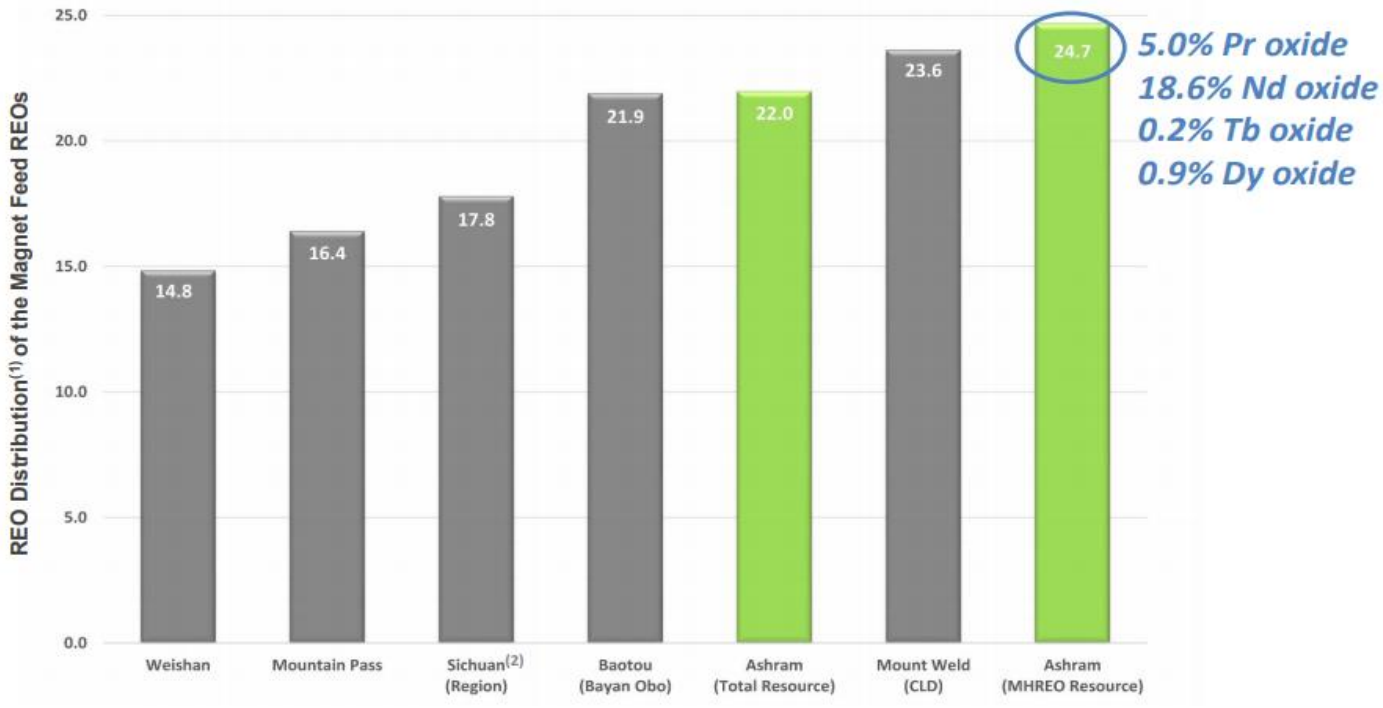
Ashram's Mineralogy and Geology – Ideal for Rare Earth Oxides (REOs), Including the Most Valuable REOs: Ashram is comprised primarily of the minerals monazite and bastnaesite, two of the four minerals from which rare earth products have been commercially (profitably) produced worldwide. Indeed, more than 80% of all REOs ever mined worldwide have had monazite (~60%), bastnaesite (~15%) and xenotime (~5%) as their source minerals. Monazite and bastnaesite comprise 57.0% and 13.8%, respectively, of Ashram's mineral concentrate.

(We note that the Mountain Pass rare earth deposit in California, which is the only rare-earth mining facility currently operating in the U.S. and is owned by the private company MP Materials, has bastnaesite as its most dominant mineral. Ashram's mineral concentrate in much richer in Magnet Feed REOs than Mountain Pass' – making Ashram's concentrate much more valuable. See the comparison of Ashram to Mountain Pass in Figure 2 and more detail on MP Materials on page 11.)

The host rock type for Ashram is carbonatite, an igneous rock which consists of more than 50% carbonate minerals. (A rock is a solid combination of more than one mineral formation.) Just as is the case with Ashram's favorable mineralogy, more than 80% of REOs ever produced have had carbonatite as their host rock. We note that carbonatite-hosted deposits frequently have almost unlimited size; they often continue down until almost the center of the earth.

Probably most important, the composition of Ashram's concentrate is richer versus other worldwide rare earth deposits in terms of those REOs – neodymium (Nd) oxide, praseodymium (Pr) oxide, terbium (Tb) oxide, and dysprosium (Dy) oxide -- that are used as magnets in the engines of electric vehicles (and in the magnets of windshield wiper, sensor and mirror motors in all cars). See Figure 2. Furthermore, the Ashram deposit extends about 600 meters along strike and is at least 600 meters deep. In essence, CCE owns a nearly limitless of supply of the some of the most valuable materials in the world.

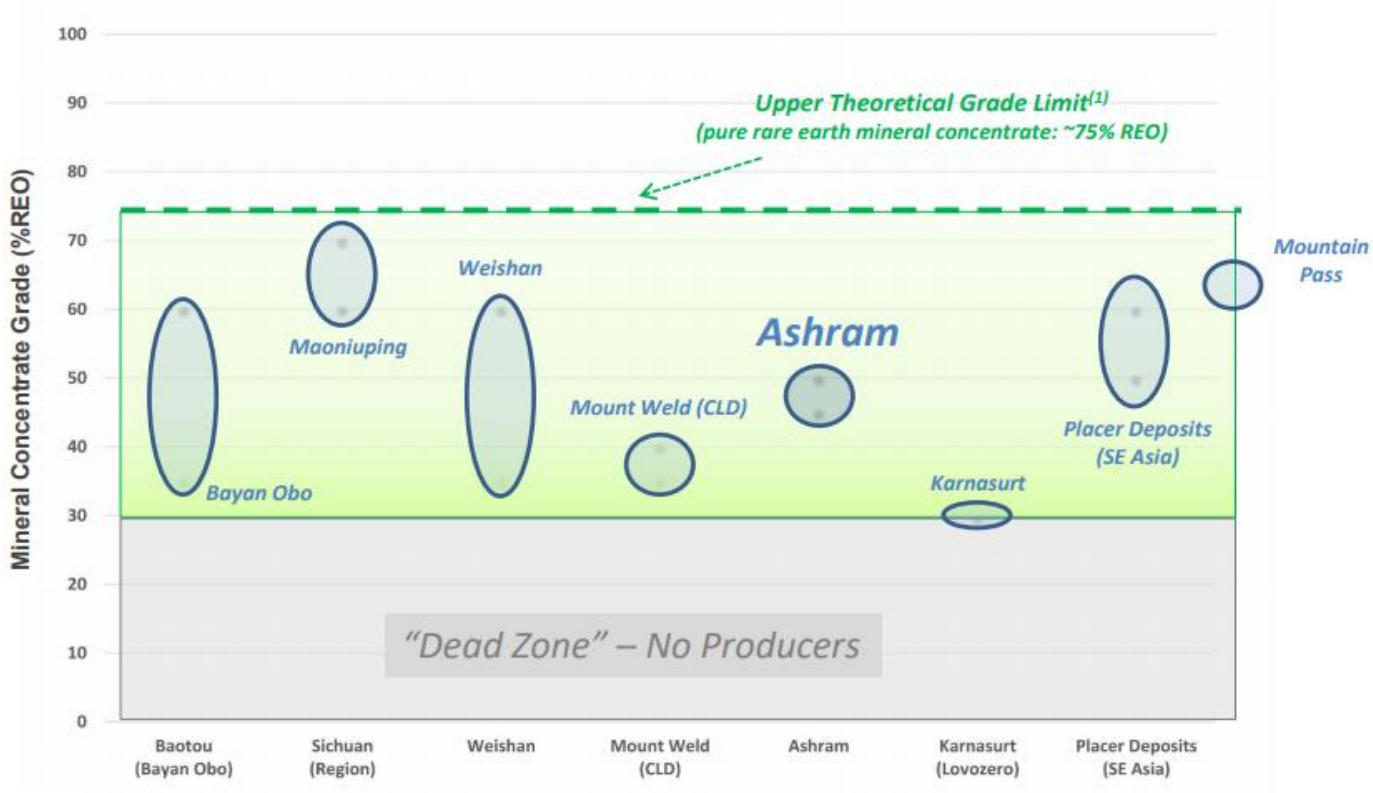
Figure 2: Ashram's Mineral Concentrate – Rich in the Most Valuable Rare Earth Oxides



Source:* *Commerce Resources Corp.

Ashram's Rare Earth Purity Level -- Comparable to Currently-Producing Projects: At an average of around 45%, the purity level of the rare earth mineral concentrate that Ashram can produce is similar to that of the largest current rare earth producers. See Figure 3 for a graphical depiction and Figure 4 for a more detailed geologic comparison of the properties. Most of the other large deposits are located in China, including the Bayan Obo mine, the world's largest rare earth producer. (We note that Bayan Obo, which is located in Baotao, is actually an iron ore mine; it produces rare earths as a byproduct.) All rare earth projects in commercial production have mineral concentrate purity levels of at least 30% -- hence the term "Dead Zone" ascribed to purity levels below that number in Figure 3.

Figure 3: Purity Level of Ashram's Mineral Concentrate is In-Line with Other Major Rare Earth Deposits



Source:* *Commerce Resources Corp.

Figure 4: Key Characteristics of Ashram Deposit Versus Other Rare Earth Deposits

Deposit	State of Activity	Region	Deposit Type	Primary Rare Earth Mineralogy	Deposit Grade[4] (REO)	Mineral Concentrate Grade[4] & Recovery[4]	Comments
Mount Weld (CLD)	Production	Australia	Carbonatite (laterite)	**Monazite (secondary)**	7-11%	40% REO @ 70% recovery	Significant technical challenges
Mountain Pass	Production	USA	Carbonatite	**Bastnaesite**	6-9%	60 to 65% at high recovery	Once primary REO producer globally
Baotou[1]	Production	China	Carbonatite[3]	**Bastnaesite, Monazite**	1-6%	Two concentrates 55-65% REO & 36% REO @ 60% combined recovery	Dominates global production, primary iron mine with REO by-product
Sichuan[2]	Production	China	Carbonatite	**Bastnaesite**	2-3%	60-70% REO @ >80% recovery	Second largest producing region globally
Weishan	Production	China	Carbonatite	**Bastnaesite**	1-3%	Two concentrates 60% REO & 35% REO @ 80% combined recovery	Head grade is falling, lower quality material, inconsistent producer
Ashram	Development	Canada	Carbonatite	**Monazite, Bastnaesite**	2%	40-50% @ >75% recovery	Unique enrichment in Pr, Nd, Dy, Tb
Karnasurt, (Lovozero)	Production (minor)	Russia	Granitoid	Loparite	0.9%	30% REO @ 70% recovery	Unique to Russia, REE by-product of Nb-Ta-Ti
Placer	Production (minor)	SE Asia	Placer (heavy sands)	**Monazite, Xenotime**	<0.2%	50-60% REO @ >80% recovery	Source of HREO, REO co-product with Ti-Zr...
Clay	Production	SE Asia	Clay	n/a (ion-absorbed)	0.05-0.2%	n/a	Primary source of HREO

Source: Commerce Resources Corp.

Generally speaking, the higher the content of rare earths in the resulting mineral concentrate, the cheaper and easier it is to refine it into valuable REOs, and the fewer impurities or deleterious elements that must be removed from the concentrate. If a rare earth concentrate has too low a content level, it may not be economic to refine it to produce an REO or rare earth metal.

Ashram Preliminary Economic Assessment (PEA) Yielded Robust Results: CCE completed a PEA on the Ashram deposit in 2012 (which was further revised in 2015). Based on a 4,000-tonne per day mining operation, a 25-year mine life, and lower REO pricing assumptions than in the current market, SGS Consultants **concluded that the Ashram Project had a pretax net present value (NPV) and an internal rate of return (IRR) of $2.3 billion and 44%, respectively, and a payback period of only 2 ¼ years. (Furthermore, these calculations do not reflect any benefit from the potential sale of the acidspar byproduct of Ashram's beneficiation process; such sales could generate revenue of US$40 million per year.** See below.)

CCE Will Have a Valuable Acidspar By-Product: After the final magnetic separation stage of the beneficiation process (see page 10), a rare earth mineral concentrate is created, as well as tailings or a waste product. Included in the Ashram tailings is highly-concentrated (> 80%) fluorite, which is more commonly called fluorspar. Global Industry Analysts, a consulting firm, projects the 2020 global market for fluorspar will total 5.8 million tonnes, worth nearly US$2 billion, even during the COVID-19 pandemic.

Two main grades of fluorspar are sold worldwide. Met-spar, with a purity range of 60%-85%, is widely used to reduce melting temperatures and remove impurities in iron smelting. Met-spar prices have increased significantly over the last few months as China's iron ore demand has spiked. June 2020 iron out imports to that country hit their highest levels since October 2017. Acidspar, which has a much higher concentration level of 97% or more, is converted chemically to hydrofluoric acid (HF). HF has key applications as an oil and water repellent, and in pharmaceuticals and refrigerants.

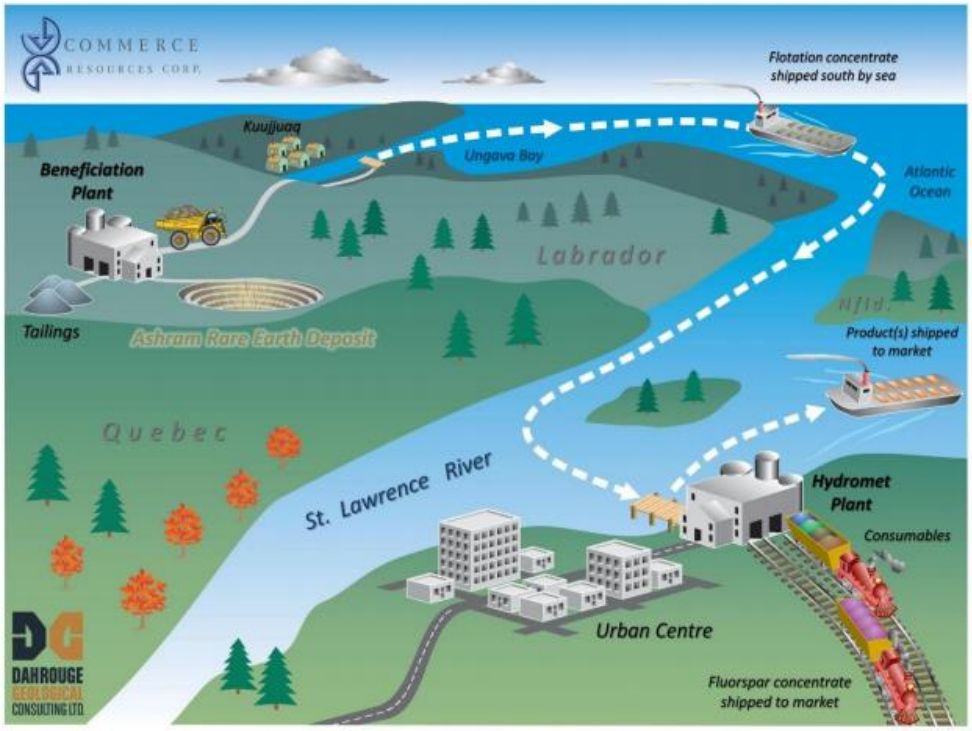
CCE plans to further process its 80%+ purity fluorspar byproduct so that its concentration level reaches acidspar standards. At CCE's planned 4,000-tonne/day resource mining level, about 80,000 tonnes of acidspar would be produced on an annual basis. Current pricing for acidspar is around US$500/tonne delivered to China. At those levels, CCE could generate around US$40 million annually from the sale of this valuable byproduct. (Note that this estimate could prove conservative, as acidspar prices have risen five-fold since the year 2000.)

CCE's Time Frame or Pathway to Production: As noted on page 5, CCE completed and updated its PEA in 2012 and 2015, respectively, and the PEA suggests that the Ashram Project has a multibillion-dollar NPV. The next steps are the ongoing Pre-feasibility Study followed by the Bankable Feasibility Study (including environmental and social impact assessments), each of which should take about a year to finish and have combined costs of around US$15 million. Given Ashram's impressive resource characteristics and strong investor interest in the rare earths industry, CCE could choose to fund these studies with non-dilutive project financing where CCE would exchange a percentage of future offtake for a set period of time or perhaps a small ownership stake in the Ashram Project. This would be far less dilutive than the traditional financing of raising capital by creating new equity via private placements.

CCE would then apply for – and hopefully quickly receive -- a mining permit for the project. Subsequent to that, CCE would hope to take advantage of Ashram's strong future economic prospects to establish a reasonably-priced debt facility, and CCE would tap that facility to fund all capital expenditures necessary to start mining Ashram. These steps could all take about a year, so that Ashram production could be expected to begin about three years from now.

While by no means a finalized flowchart, Figure 5 is a graphical depiction of how the Ashram deposit resources may be transformed into saleable rare earth and fluorspar products. (CCE is also evaluating other business plans; see page 11.) After mining and processing at the beneficiation facility, the resulting mineral concentrate would be driven by truck over a 180-kilometer road, which CCE would build, to reach a loading facility. (The capital expenditures to build the road are reflected in CCE's $2.3 billion NPV PEA calculation; indeed, CCE has subsequently refined the planned haul road route to cut road construction costs by about $70 million.) In turn, the concentrate is shipped by sea to a potential refinery on the St. Lawrence River. Depending on CCE's market analysis and production specifications, the refinery may be designed to produce a variety of REOs, as well as a fluorspar byproduct.

Figure 5: Graphical Depiction of How Ashram's Rare Earth Resource May Go To Market



- Open-pit mine with mineral process plant on-site
  - Flotation concentrate produced
- Trucked north on haul road to barge facility near Ungava Bay
- Transported by boat to hydromet facility in the St. Lawrence Seaway region
- Flotation concentrate processed at hydromet facility to a high-grade mineral concentrate (~45-50% REO), and through to saleable product(s)

Product Suites being considered

1. Mixed rare earth carbonate (REC)
2. La-Ce depleted mixed REC, La oxide, Ce carbonate
3. Nd-Pr oxide, La oxide, Ce carbonate, SEG-HRE carbonate
4. Separated REOs via strategic Partner

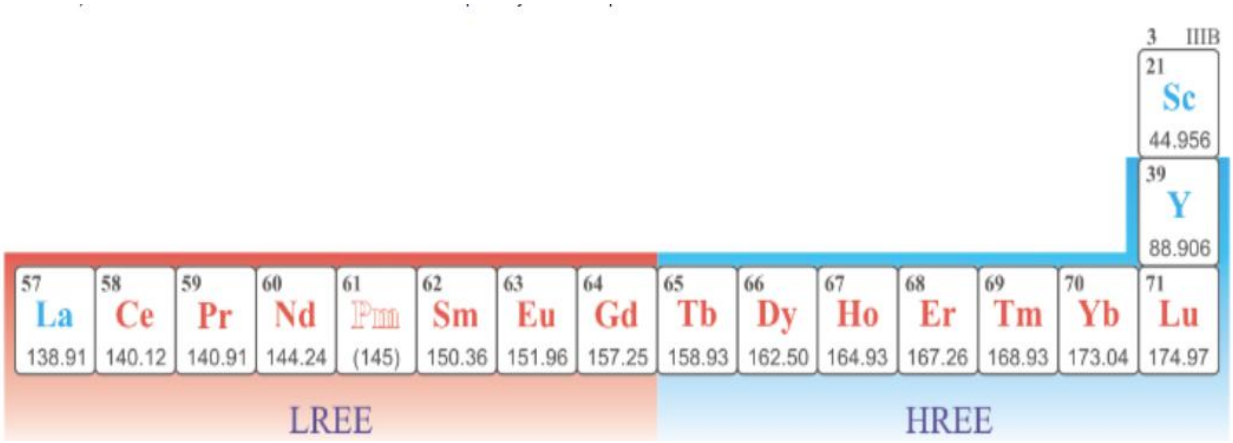
Source: *Commerce Resources Corp.*

Rare Earth Elements – The Basics: In broad terms, rare earth production entails exploring for and the mining of rare earth elements, followed by the key beneficiation and refining or separation processes (see page 10). The refining process produces valuable REOs. Rare earth metals can be produced through a smelting process that utilizes REOs and other forms of the rare earths.

Rare earth elements are relatively plentiful in the earth's crust but are typically widely dispersed, rendering their mining in a single location prohibitively expensive and usually impractical. The molecular structure of rare earth elements (REEs) is such that REEs frequently occur together in minerals, perhaps even in multiple mineral structures. Not surprisingly, these characteristics generally make their separation and extraction difficult. More than 150 rare earth minerals exist, but only four (monazite, bastnaesite, xenotime, and loparite) have hosted REE-producing, commercial (profitable) mines. Of these four mineral hosts, monazite is the most dominant, as well as arguably the simplest and most economic to process. As noted on page 2, Ashram's primary mineral is monazite.

The 17 total rare earth elements are generally categorized as light or heavy elements. See Figure 6. (The 17 rare earth elements are frequently referred to as the 15 lanthanides plus yttrium and scandium. Two of the 17, including scandium, cannot be refined into REOs by standard configured refineries.)

Figure 6: The 17 Rare Earth Elements



Source: Lynas Corp.

Each source of rare earth material will generally contain the entire spectrum of REEs, however, in varying percentages. The heavy elements are generally rarer and sell for significantly higher prices, as they are less common and much more costly to separate. In contrast, light rare earth elements (LREEs) are produced in larger quantities because they occur naturally in greater quantities. Producers strive to meet the high demand for Nd and Pr, which necessitates the over-production of all associated LREEs, like low-priced cerium (Ce) and lanthanum (La). For example, a typical rare earth concentrate from a mining operation may contain 75% of low-priced La and Ce, perhaps 15% Nd and Pr, and about 10% other heavy REEs like Dy and Tb. Dy- and Tb-oxides sell for around US$270,000 per tonne and US$660,000 per tonne, respectively. La-oxide, on the other hand, transacts at prices of less than US$1,500 per tonne. See Table 1 for approximate current pricing data for various REOs.

We note that the price of Dy-oxide spiked from US$90,000 per tonne to about US$3 million per tonne following the 2010 Senkaku boat collision incident in disputed waters off China and Japan. In response, China unofficially banned rare earth exports to Japan. In turn, manufacturers of technology products re-engineered their magnet designs to utilize less Dy and more of the other three Magnet REOs – Tb and, most prominently, Nd and Pr. In 2010, Dy comprised about 13% of the REOs used in an REE magnet; today that percentage is only around 1%. Naturally, this shift boosted the prices of the other Magnet REOs, and this movement has decidedly positive implications for CCE, as virtually all of the Magnet REOs in Ashram's high-grade mineral concentrate are Nd-oxide and Pr-oxide. See Figure 2 on page 3.

Table 1: RARE EARTH OXIDE PRICING DATA

Rare Earth Oxide	Approximate Price Expressed in US Dollars Per Tonne 7/07/20 Prices
Lanthanum	$1,400
Neodymium	$43,300
Praseodymium	$42,350
Samarium	$1,790
Europium	$29,870
Yttrium	$2,210
Gadolinium	$27,720
Terbium	$666,400
Dysprosium	$271,700
Holmium	$60,660
Erbium	$23,100
Ytterbium	$15,650
Lutetium	$778,700
Scandium	$952,000

Source: BAIINFO

Beneficiation Process: Through beneficiation processing, including the processes of flotation, hydrochloric acid (HCl) leaching, gravity and magnetic separation, REEs are aggregated into a mineral concentrate rich in rare earth content. Such a concentrate typically has a purity level of 40-65%.

CCE has already built pilot facilities for the flotation and HCl leaching steps. Many major companies, including Solvay, a major rare earth refinery in France, Mitsubishi, Siemens, Thyssen-Krupp, as well as North American-based companies such Albemarle, Innovation Metals Corp., K-Tech, and Rare Earth Salts have requested concentrate samples from CCE's pilot facility.

Refining: Refining, or separation, involves the further separation of an element from its ore, thereby removing almost all impurities. Depending on the efficiency and detailed steps of the refining process, the final purity level may be 97% up to perhaps 99.9995%. This process is labor-intensive, requires substantial factory space and costs increase significantly with the level of purity.

In detail, the refining process consists of front-end and back-end processes. The front-end process produces a rare earth chemical concentrate and generally includes the following steps:

- Alkaline Cracking: The mineral concentrate from beneficiation undergoes alkaline boiling. This procedure creates a rare earth hydroxide.

- Acid Dissolving: The rare earth hydroxide is dissolved by HCl acid, creating a rare earth chloride filtrate. During this step, thorium is removed from the rare earth liquid.

In the back end of the refining process, the rare earth elements in the chemical concentrate are precipitated as solid carbonates or calcined (cooked) to an oxide state.

- Solvent Extraction: The rare earth chloride solution is next placed into contact with another insoluble liquid. In turn, rare earth compounds are separated based on their different solubilities in different liquids. The rare earth materials are thereby transferred from their original solution to the other liquid solution.

- Separation: The rare earth chloride extracts from the solvent extraction process are separated into single rare earth chloride products and then put through the solvent extraction process again.

U.S. Efforts to Spur Domestic Development of Rare Earths: Rising tensions with China, including a broad desire to limit supply chain exposure with economic and political rivals/enemies in light of the COVID-19 pandemic, have prompted U.S. government officials to introduce initiatives that would create a complete domestic rare earth supply network. Moreover, China views rare earths as strategic materials, and the country routinely tightens export quotas and raises export tariffs on REOs and rare earth metals. For example, on July 14, 2020, China announced that it may cease supplying rare earth materials to Lockheed Martin after that company reached a deal to sell air defense missiles to Taiwan. REOs are used extensively in advanced weapons production.

The U.S. cannot tolerate such political and business practices. Examples of U.S. efforts to blunt China's actions include:

- In June 2019, President Trump and Canadian Prime Minister Trudeau created the framework for, and in January 2020 signed, the Canada/ United States Joint Action Plan on Critical Minerals, reflecting the countries' shared desires to secure supply chains for vital minerals, including REEs.

- In July 2019, President Trump, after determining that REEs are essential to the U.S. national defense, issued an executive order which authorizes the use of the Defense Production Act to strengthen the domestic industrial base and supply chain for REEs.

- In May 2020, Senator Lisa Murkowski (Republican) of Alaska introduced bipartisan legislation to begin reducing America's reliance on foreign minerals, including REEs.

- Also in May 2020, Senator Ted Cruz (Republican) of Texas launched a bill that offers significant tax breaks for new rare earths projects, as well as large tax incentives for end consumers who buy finished rare earth products from U.S. suppliers. (CCE is considered a domestic rare earths company by the U.S.)

- Energy Fuels (NYSE: UUUU) has announced that it is studying minor modifications to its White Mesa Mill processing facility that would allow it to process rare earth concentrates into REOs. White Mesa, which is located in southeastern Utah, is the only fully-licensed and operating conventional uranium mill in the U.S.; it has a licensed capacity to process eight million pounds of uranium per year.

  Energy Fuels believes that its ability to remove and recover uranium and thorium from such concentrates represents a core competency and a key competitive advantage. Energy Fuels' initial goal in establishing a domestic rare earth refinery would be the ability to produce cerium and lanthanum oxides, both of which are key components of automotive internal combustion engines. Cerium oxide is used in catalytic convertors; and lanthanum oxide plays a critical role in the cracking or refining of fuel oil into gasoline.

  CCE is evaluating the implications of Energy Fuel's plans. If CCE were to develop a relationship with Energy Fuels' White Mesa facility – though White Mesa is not yet able to process rare earth concentrates -- it would represent an association with a facility that is further upstream, in terms of REO production, than any other rare earth collaboration in North America.

  (Other companies also could benefit if Energy Fuels' White plans were to go forward. For example, MP Materials ships approximately 55,000 tonnes of rare earth mineral concentrate it produces each year, consisting primarily of cerium and lanthanum to Chinese facilities for refining. It is unable to refine the concentrate itself into rare earth oxides or to identify an available refinery situated outside China. We should note, however, that MP Materials has a contractual relationship with China, and it may have difficulty renegotiating that pact.)

Comparing the CCE Investment Opportunity to Micro-Cap and Small Cap Gold Miners: In recent months, the market has positively revalued the stocks of many junior gold mining companies, as investors have identified those companies as a source of value or an inflation hedge against government actions of virtually all countries – in particular, the accelerated printing and distribution of their paper currencies to fight the economic fallout of the COVID-19 pandemic.

Such a junior miner is valued based on a tentative estimate of the gold and/or silver it may produce in the fairly distant future even though little objective data has been gathered to determine the costs of that mining effort. Based on this investing rationale, the valuation of CCE, a fellow resource company, versus that of many junior miners, is extremely compelling. We note the following:

- Some junior gold miners which have reported good drilling results in regions or in individual holes have jumped to dramatic valuations. For example, Great Bear Resources (TSX: GBR.V) has reported positive results in its Dixie Project in Ontario's Red Lake Camp, but it has yet to report a resource estimate or PEA on the project. As a result, any production at Dixie is likely many years away. CCE, on the hand, completed its updated PEA more than five years ago and is working to finalize a Pre-feasibility Study on its Ashram Project. Great Bear's current stock market valuation is around C$850 million, up from around C$250 million in mid-March 2020, and orders of magnitude higher than CCE's equity capitalization of just C$11 million.

- Regardless of the positive drilling results and despite a frenzy by speculators to buy gold while processors which transform the metal into bars and coins during the pandemic are closed, gold is not in long-term short supply. **In contrast, there is a significant shortage of REOs which can be produced by a commercially viable project. In Ashram, CCE may own such a project**.

We also note that as investors begin to appreciate the key role that CCE could play in the electric vehicles (EV) industry, CCE shares could benefit from the generous valuations the market is applying even to those participants in that industry which seem to have little more than a business plan. In the longer term and as the Ashram Project moves close to production, a takeover by a well-capitalized EV company could be a possibility as well.

Strong Management: CCE is led by President Chris Grove and CEO David Hodge. A 16-year veteran of the company, Mr. Grove has strong operational experience and is well respected in the financial communities of North America and Europe. Mr. Hodge has extensive public company management experience and has been a director of mineral exploration companies since 1996.

Investment Summary: Despite its small size, CCE has a unique opportunity to become a major player in the REE industry. CCE's Ashram's rare earth deposit, coupled with associated processing facilities, could prove to be a key in diversifying the West's reliance of China for the supply of REOs and rare earth metals. Moreover, the limiting factors in this scenario are not a determination that the reserves are present nor the verification of an unproven processing technology; instead, the decisive factor is CCE's securing a fairly small amount of funding for its Pre-feasibility Study and Bankable Feasibility Study. We believe that, as investors begin to appreciate CCE's assets and fundamentals, securing that capital will be a fairly easy hurdle to overcome. Even more, this could set the stage for a dramatic revaluation of CCE's stock.

In particular, we note that a number of junior gold miners which have not even produced resource estimates have seen their valuations rebased solely on recent increases in the market price of gold. In our view, CCE's fundamentals and the value of its resource far outstrips that of many small-cap gold miners, yet CCE's stock is essentially unchanged since last fall. This underperformance represents an excellent opportunity for investors.

Jim McFadden, CFA, MBA
Tormont50 Growth Report
07/16/2020.

Forward Looking Statements

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