

### Commerce Resources Corp. (TSXV: CCE) – Announces PEA Results on Upper Fir; Significantly Expands Middle and Heavy Rare Earths at Eldor

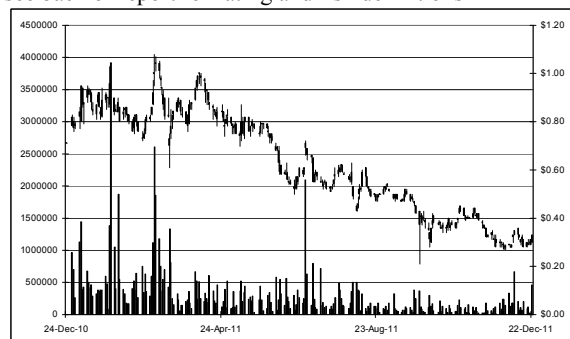
Sector/Industry: Junior Mining/Exploration

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

#### Market Data (as of December 28, 2011)

Current Price	C\$0.33
Fair Value	C\$1.25 (↓)
Rating*	BUY
Risk*	5 (Highly Spec)
52 Week Range	C\$0.21 - C\$1.08
Shares O/S	147.65 mm
Market Cap	C\$48.72 mm
Current Yield	N/A
P/E (forward)	N/A
P/B	0.96x
YoY Return	-59.8%
YoY TSXV	-33.2%

\*see back of report for rating and risk definitions



#### Investment Highlights

- Commerce recently announced the results of a Preliminary Economic Assessment conducted on the Upper Fir Tantalum and Niobium deposit.
- The study, which was based on a potential 10 year - 7,500 tpd underground operation, gave a base-case before-tax NPV@8% of \$18.5 million and a before-tax IRR of 9.1%. Current Ta and Nb prices are significantly higher than the prices used in the base-case scenario.
- The NPV estimate is highly sensitive to discount rates and commodity price assumptions. The before-tax NPV@8% ranges from negative \$141 million to positive \$178 million, and from negative \$123 million to positive \$160 million, as Nb and Ta prices change by  $\pm 30\%$ .
- Overall, the PEA results were below expectations and we have lowered our fair value estimate on CCE. However, we believe that CCE continues to be significantly undervalued.
- Results from the first 18 holes from the 2011 summer/fall drilling at the Ashram REE deposit show strong intercepts of middle and heavy rare earth element enrichment.
- CCE's JV partner on Carbo acquired a 100% interest in the project by issuing 8 million shares to CCE. CCE now owns 18% of the outstanding shares of the JV partner.

#### Key Financial Data (FYE - Oct 31)

(C\$)	2010	2011 (9 mo)
Cash and cash equivalents	7,128,737	8,317,006
Working Capital	11,451,888	10,931,690
Mineral Assets	26,748,208	35,126,565
Total Assets	44,235,587	52,601,420
Net Income	(2,372,288)	(4,360,320)
EPS	(0.02)	(0.03)

Commerce Resources is an exploration company whose primary asset is the Blue River tantalum and niobium project in central BC. The company is also aggressively exploring its Eldor rare earth project in northern Quebec. The Ashram Zone at the Eldor project has an NI 43-101 compliant inferred resource of 117.34 Mt grading 1.74% TREO.

**PEA Results on Blue River** On November 3, 2011, Commerce Resources announced the results of a Preliminary Economic Assessment conducted by AMEC Americas Limited on the Upper Fir Tantalum and Niobium project in Blue River, B.C.

**The study, which was based on a potential 10 year - 7,500 tpd underground operation, gave a base-case before-tax NPV@8% of \$18.5 million and a before-tax IRR of 9.1%.** The study assumed that processing (using a standard grind-flotation procedure) will be done on-site. The project is expected to produce 99.9% pure tantalum and niobium oxides, which are technical grade oxide products.

The following table shows a summary of the assumptions/inputs used by the PEA along with our previous estimates.

Valuation Summary	PEA	FRC
Resources - Mt	25.0	45.6
Recovery	65% (Ta) / 69% (Nb)	75%
Avg. Ta Grade	185	196
Avg. Nb Grade	1,591	1,618
Production Commencement	2013	2014
Average Throughput (tpd)	7,500	4,500
Mine Life (years)	10	29
Average Operating Costs (\$/tonne)	C\$38.4 / US\$36.6	C\$37.5 / US\$34.1
Long-term Price of Tantalum Oxide (US\$/lb)	\$144	\$120
Long-term Price of Niobium Oxide (US\$/lb)	\$21	\$15
Capital Investment	C\$379 MM / US\$361 MM	C\$303 MM / US\$275 MM
LT - C\$/US\$	1.05	1.10
<b>Fair Value (C\$)</b>	<b>BT NPV @ 8% - \$18.49 MM</b>	<b>AT NPV@11.6% - \$117.23 MM</b>

As shown in the table, our base-case estimate (after-tax NPV@11.6%) of \$117.23 million, at the time of our previous report, is significantly higher than AMEC's estimate primarily because of our aggressive capital cost and recovery rate assumptions. Our previous estimates were influenced by the then recent results of a scoping study on MDN Inc's (TSX: MDN) Crevier project in Quebec.

Also, we used 100% of indicated + 50% of inferred resources on the Upper Fir, and 50% of the exploration targets at Fir and Verity (totaling 45.6 Mt) for our valuation versus the PEA's 25 Mt (10 year operation) estimate.

A brief discussion on a few of the major inputs follows.

## Resource

The Upper Fir currently has 36.4 Mt of indicated resources containing 195 gpt Ta<sub>2</sub>O<sub>5</sub> and 1,700 gpt Nb<sub>2</sub>O<sub>5</sub>, plus 6.4 Mt of inferred resources containing 199 gpt Ta<sub>2</sub>O<sub>5</sub> and 1,890 gpt Nb<sub>2</sub>O<sub>5</sub>. The PEA only used 25 Mt at 185 gpt Ta<sub>2</sub>O<sub>5</sub> and 1,591 gpt Nb<sub>2</sub>O<sub>5</sub>.

## Recovery

The study assumes a recovery rate of 65% for Ta, and 69% for Nb, in the floatation stage, and a 97% recovery in the refining stage for both Ta and Nb.

## Commodity Prices

The study used a Ta price of US\$317/kg (US\$144/lb) and Nb price of US\$46/kg (US\$21/lb). These prices are significantly lower than current prices. According to AMEC, CCE and Asian Metal, as of November 2011, Ta was US\$479/kg and Nb was at US\$94/kg. Asian Metal currently indicates Ta prices of US\$345/kg and Nb prices of US\$65/kg – which are still higher than the prices used in the PEA.

## Capital Cost and Operating Cost Estimates

AMEC estimates an initial CAPEX (to be spent over the first two years) of \$379 million - 11.6% of which is reserved for contingency. The average operating cost is estimated at \$38.44/t, or \$399.92/kg Ta. The average cash cost (*which is operating cost minus revenues from Nb produced*) is \$24.91/kg.

The NPV estimate is highly sensitive to discount rates and commodity price assumptions (as shown in the tables below).

Summary of Cash Flow		Pre-tax
<b>Cumulative net cash flow</b>		
Undiscounted	CAD\$000	236,631
<b>Net present value</b>		
Discounted at 5%	CAD\$000	80,349
Discounted at 6%	CAD\$000	57,612
Discounted at 7%	CAD\$000	37,064
Discounted at 8% (Project Base Case)	CAD\$000	18,487
Discounted at 9%	CAD\$000	1,685
Discounted at 10%	CAD\$000	(13,514)
<b>Internal rate of return</b>	%	9.1
<b>Payback period</b>	Years	6.3

As the before-tax IRR is 9.1%, the before-tax NPV turns negative at discount rates higher than 9.1%.

SENSITIVITY OF NPV @ 8%		Change in Factor						
		-30%	-20%	-10%	0%	10%	20%	30%
Factor	Exchange rate	448.7	269.5	130.0	18.5	(72.8)	(148.8)	(213.2)
	Capital expenditure	117.9	84.8	51.6	18.5	(14.6)	(47.8)	(80.9)
	Operating expenditure	190.5	133.1	75.8	18.5	(38.8)	(96.2)	(153.5)
	Nb price	(140.9)	(87.8)	(34.6)	18.5	71.6	124.7	177.9
	Ta price	(123.3)	(76.1)	(28.8)	18.5	65.8	113.0	160.3

As shown in the table above, the before-tax NPV@8% ranges from negative \$141 million to positive \$178 million, and from negative \$123 million to positive \$160 million, as Nb and Ta prices change by  $\pm 30\%$ .

The following chart shows the sensitivity of the NPV to tantalum prices. At current Ta prices, the NPV estimate is \$247 million.

Tantalum Price		US\$317/kg	US\$381/kg	US\$470/kg
<b>Summary of Cash Flow</b>		<b>Pre-tax</b>		
<b>Cumulative net cash flow</b>				
Undiscounted	CAD\$000	236,631	398,506	623,615
<b>Net present value</b>				
Discounted at 5%	CAD\$000	80,349	195,583	355,831
Discounted at 6%	CAD\$000	57,612	165,695	315,998
Discounted at 7%	CAD\$000	37,064	138,564	279,712
<b>Discounted at 8% (Project Base Case)</b>	<b>CAD\$000</b>	<b>18,487</b>	<b>113,918</b>	<b>246,628</b>
Discounted at 9%	CAD\$000	1,685	91,515	216,435
Discounted at 10%	CAD\$000	-13,514	71,139	188,860
Internal rate of return	%	9.1%	14.5%	21.3%
Payback period	Years	6.3	5.0	3.8

In the models above the niobium price is held constant at US\$46/kg metal in an oxide product

Current Prices:

Tantalum: US\$479/kg metal in an oxide product

Niobium: US\$94/kg metal in an oxide product

(Source: Asian Metal November 2011)

### **Development Plans**

The company's plan for the next 12 months is as follows:

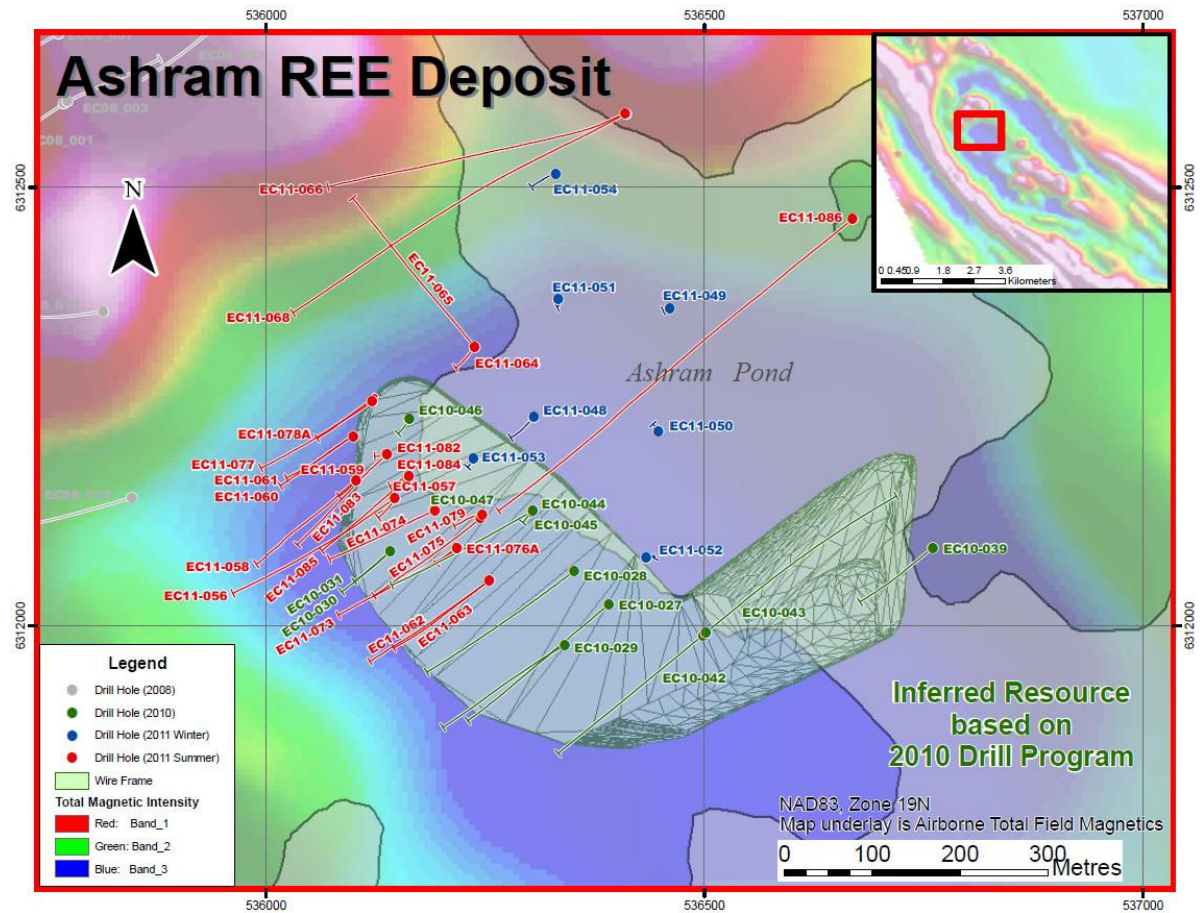
- AMEC has commenced work on an updated mineral resource estimate which will include the results of drilling completed to the end of 2010, and assays received as of September 29, 2011.
- An environmental review of the project is expected to take up to 18 months to complete.
- Detailed metallurgical test work including the engineering of a pilot plant design with a view to optimizing the process design used in the PEA.
- Results from the 2011 drill program are pending - the program, completed in November, comprised 34 drill holes for a total of 8,715 meters.

**Ashram, Eldor Project**

In our previous report of September 2011 we stated that CCE had commenced a summer/fall drilling program on the Rare Earth Element Zone at the Ashram deposit. As of October 2011, the company had completed 33 holes on the property for a total of 10,120 meters.

**Results from the first eighteen holes from the summer/fall drilling are presented below, and show significant near surface intercepts of Middle and Heavy Rare Earth Oxide (MHREO) enrichment.** Holes EC11-58 to 063, 073, and 074, were collared in mineralization and targeted the western area of the deposit. Drill holes EC11-064, 065, and 068, were located at the northern extension of the deposit.

Of particular note is hole EC11-056 which intersected 44.56 meters of 1.76% Total Rare Earth Oxides (TREO) with a MHREO/TREO ratio of 15.6, including 1.28% TREO over 12.26 meters with a MHREO/TREO ratio of 27.9%. In addition, drill hole EC11-059 intersected 123.41 meters of 2.47% TREO. Recent drilling also expanded the known MHREO zone with an intersect of 104.19 meters of 12.7% MHREO at 1.54% TREO in hole EC11-075. Hole EC11-076A gave the highest intercept of dysprosium yet encountered at the property of 529 ppm at an MHREO grade of 26.2%, and a TREO grade of 2.02%.



(Source: Company)

Hole ID	From (m)	To (m)	Interval (m)	TREO (%)	MHREO (% of TREO)	Neodymium Oxide (% of TREO)
EC11-056	94.42	92.28	2.14	2.00	10.6	17.1
Inc.	50.27	78.08	27.81	2.31	5.8	15.0
Inc.	5.71	25.05	19.34	1.62	22.4	20.9
	7.04	19.30	12.26	1.28	27.9	23.6
EC11-057	279.22	280.54	1.32	2.06	7.1	16.6
	39.28	116.82	77.54	1.62	12.2	17.6
EC11-059	288.61	289.29	0.68	2.03	5.4	15.6
Inc.	123.41	157.55	34.14	2.47	4.6	14.3
EC11-063	3.89	76.34	72.45	1.41	12.7	19.0
EC11-064	491.05	493.92	2.87	2.04	5.8	15.9
EC11-068	290.03	562.16	272.13	1.95	5.0	15.9
Inc.	218.74	496.27	277.53	2.20	4.7	15.2
EC11-073	3.14	55.43	52.02	1.32	14.9	20.1
Ec11-075	4.85	191.13	186.28	1.77	9.2	17.4
Inc.	129.71	186.10	56.39	2.20	5.6	15.4
EC11-076A	2.19	178.62	176.43	1.56	12.3	18.5
	3.05	51.96	48.91	1.46	14.2	20.2

(Source: Company)

**These results have expanded the defined zone of middle and heavy enrichment by approximately 50 meters north-northwest of previous drill holes, and to more than 175 meters from surface.** The MHREO mineralized zone now extends approximately 150 meters with widths between 39 meters to 176 meters. **In addition, the recent drilling has demonstrated the potential to increase the grade of the deposit from 1.74% TREO stated in the initial resource estimate.** Of particular significance is the dominance of neodymium enrichment within the MHREO zone which consistently exceeds 15% of the TREO content.

**Results from the initial 18 drill holes have successfully identified near surface middle and heavy rare earth enrichment as well as expanding the defined area of the deposit.** We expect outstanding results from Summer/Fall drilling to further increase the grade and area of the deposit and expand the existing resource base.

Metallurgical, mineralogical and environmental studies are on going at the Eldor Property and a PEA is expected by the end of Q2 2012 (according to management).

### ***Sells Carbo Project***

In September 2011, CCE and its Joint Venture (JV) partner, Canadian International Minerals Inc. (TSXV: CIN) announced an agreement wherein CIN will acquire a 100% interest in the Carbo property by issuing 8 million shares to CCE. CCE will retain its 2% NSR royalty with no buyback right.

CCE also acquired 2 million units @ \$0.15 per unit of CIN for \$0.30 million. Each unit consists of a common share and one-half share purchase warrant (exercise price - \$0.25 in the first year and \$0.30 in the second year).

**CCE now owns 11.50 million shares (18% of the outstanding shares) and 1 million share purchase warrants of CIN.**

**Financials**

At the end of July 2011, the company had \$8.32 million in cash and cash equivalents. Working capital was \$10.93 million. The company reported a net loss of \$4.36 million (EPS: -\$0.03) in the first nine months of FY2011 (ended July 2011). We estimate the company had a burn rate (spending on its operations and investing activities) of \$0.95 million per month in the first nine months of FY2011, versus \$0.74 million per month in FY2010 (12 month period ended October 2010). The table below shows a summary of the company's cash and liquidity position.

(In C\$)	2010	2011 (9 mo)
Working Capital	11,451,888	10,931,690
Current Ratio	10.64	6.83
Monthly Burn Rate (incl. Exploration)	(740,752)	(947,064)
Cash from Financing Activities	198,975	9,711,845
LT Debt / Assets	-	-

We expect cash to last for another 3 – 6 months.

**Stock Options and Warrants:** We estimate the company currently has 10.95 million stock options (weighted average exercise price - \$0.52) and 2.65 million warrants (weighted average exercise price - \$0.81) outstanding. 4.63 million options are currently 'in-the-money' - if exercised, the company can raise up to \$1.30 million.

**Valuation and Rating**

We adjusted our DCF valuation inputs for the Blue River project based on the recently announced PEA results.

Summary of DCF Valuation	
Resources (100% Indicated + 50% of Inferred) - in mm tonnes	39.55
Recovered Tantalum Oxide - in mm lbs	8.87
Recovered Niobium Oxide - in mm lbs	83.23
Production Commencement	2014
Average Throughput (tpd)	7,500
Mine Life (years)	17
Average Operating Costs (US\$/tonne)	\$36.60
Long-term Price of Tantalum Oxide (US\$/lb)	\$145
Long-term Price of Niobium Oxide (US\$/lb)	\$20
Capital Investment (US\$)	\$361,000,000
LT - C\$/US\$	1.10

The revised throughput rate, operating/capital cost inputs, and recovery rates are in line with the assumptions used by the PEA. We have however continued to use 100% of the indicated and 50% of the inferred resources on the Upper Fir (which is equivalent to 39.55 Mt) versus

the PEA's conservative 25 Mt estimate. We have excluded the exploration targets (which we had used in our previous valuation) at the Fir and Verity for conservatism. In addition to the above changes, we have also raised our long-term (2014+) tantalum oxide and niobium oxide prices from US\$120/lb, and US\$15/lb, to US\$145/lb, and US\$20/lb, based on our continued positive outlook on these commodities.

The overall impact of all the above changes was that our DCF and real options valuation dropped from \$0.78, and \$1.02 per share, to \$0.29 per share, and \$0.65 per share, respectively. The valuation dropped primarily due to our aggressive recovery rate and capital cost estimates in our previous report.

With respect to Eldor, we have continued to value the project based on a peer average Enterprise Value (EV) to TREO resource ratio. Our valuation on Eldor dropped (from \$1.01 per share to \$0.71 per share), despite the positive results from the project since our previous report, due to the drop in the peer average EV/Resource ratio from \$298/tonne to \$113/tonne. Despite the recent drop in the peer average EV to resource ratio, we used \$205/tonne (which is the average of \$113/tonne and \$298/tonne) for valuation purposes as we believe the current metric of \$113/tonne undervalues REE projects.

Our revised fair value estimate on CCE based on our valuation on its projects is \$1.23 per share, down from our previous estimate of \$1.98 per share.

Valuation Summary	Revised	Previous
Blue River		
DCF	\$0.29	\$0.78
Real Options	\$0.65	\$1.02
<b>Average</b>	<b>\$0.47</b>	<b>\$0.90</b>
Eldor	\$0.71	\$1.01
Working Capital + Investments	\$0.05	\$0.07
<b>Fair Value</b>	<b>\$1.23</b>	<b>\$1.98</b>

**We reiterate our BUY rating and adjust our fair value estimate from \$2.00 to \$1.25 per share.**

### **Risks**

The following risks, though not exhaustive, may cause our estimates to differ from actual results:

- The company currently has no operating mines.
- Commerce is particularly leveraged to the prices of tantalum, niobium and rare earth

elements, which are not traded on public markets and are hard to track.

- Success of economic studies and resource expansion are important to the long-term growth of the company.
- Access to capital and share dilution.

**We rate the company's shares a RISK of 5 (Highly Speculative).**

**Fundamental Research Corp. Equity Rating Scale:****Buy** – Annual expected rate of return exceeds 12% or the expected return is commensurate with risk**Hold** – Annual expected rate of return is between 5% and 12%**Sell** – Annual expected rate of return is below 5% or the expected return is not commensurate with risk**Suspended or Rating N/A**— Coverage and ratings suspended until more information can be obtained from the company regarding recent events.**Fundamental Research Corp. Risk Rating Scale:****1 (Low Risk)** - The company operates in an industry where it has a strong position (for example a monopoly, high market share etc.) or operates in a regulated industry. The future outlook is stable or positive for the industry. The company generates positive free cash flow and has a history of profitability. The capital structure is conservative with little or no debt.**2 (Below Average Risk)** - The company operates in an industry where the fundamentals and outlook are positive. The industry and company are relatively less sensitive to systematic risk than companies with a Risk Rating of 3. The company has a history of profitability and has demonstrated its ability to generate positive free cash flows (though current free cash flow may be negative due to capital investment). The company's capital structure is conservative with little to modest use of debt.**3 (Average Risk)** - The company operates in an industry that has average sensitivity to systematic risk. The industry may be cyclical. Profits and cash flow are sensitive to economic factors although the company has demonstrated its ability to generate positive earnings and cash flow. Debt use is in line with industry averages, and coverage ratios are sufficient.**4 (Speculative)** - The company has little or no history of generating earnings or cash flow. Debt use is higher. These companies may be in start-up mode or in a turnaround situation. These companies should be considered speculative.**5 (Highly Speculative)** - The company has no history of generating earnings or cash flow. They may operate in a new industry with new, and unproven products. Products may be at the development stage, testing, or seeking regulatory approval. These companies may run into liquidity issues, and may rely on external funding. These stocks are considered highly speculative.**Disclaimers and Disclosure**

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