



Interview with Commerce Resources

Commerce Resources Corp. (Symbol CCE:TSXV) is an exploration and development company with a particular focus on tantalum, niobium and rare metal deposits with a potential for economic grades and large tonnages. The company is specifically focused on the development of its Upper Fir tantalum and niobium deposit in British Columbia, Canada. Commerce Resources is also focused on the exploration of its new deposit the Eldor carbonatite in Quebec, which is highly prospective for niobium, tantalum and uranium.

Junior Mining Stock Report recently spoke to Commerce's President, Dave Hodge, about the company and its prospects in the potentially profitable tantalum and niobium markets.

Q: What was your initial attraction to the natural resource business and how did you get your start in it?

Hodge: In a funny way I got my start in the public markets through a water source to a company called Clearly Canadian. This was 15-20 years ago and they bottled it and did extremely well. I thought this was a form of business that I was particularly good at so I carried on.

As for my involvement in the mining sector, I was the first president with Commerce and it started about 10 years ago – I created Commerce and hopefully I'm going to see it through to a successful conclusion and that would be the opening of the Betty French mine.

Q: Please elaborate on the Betty French mine.

Hodge: Betty French was one of the historic prospectors in British Columbia; she's 90+ now. But she originally found the deposit that it's based on, the Blue River carbonatites. Originally she found them as a potential source for phosphates, which is used in fertilizer. I think it's kind of interesting for her that the deposit she originally discovered has turned out to be more valuable than was first thought. The [Betty French niobium mine] has a real shot at going into production.

Q: Tell us about some of the main industrial uses of tantalum.

Hodge: It hasn't been around all that long – it was discovered in 1953 as a separate element and since has gone on to be a vital part of the electronics industry. It's highest and best use is its capacitance or its ability to absorb electricity and let that electricity go suddenly. It's used in any electronic components they want to make smaller and of higher quality, they need to use tantalum capacitors instead of ceramic or aluminum capacitors; aluminum and ceramic would do the job but just wouldn't provide the quality, the clarity of the picture, the clarity in the cell phones, the clarity in recorded music.

Q: Is Canada the major global source for tantalum mining?

Hodge: There's actually two other sources that would be at this point a much larger producer than Canada and that's Australia and Africa. Unfortunately both of those areas have met with some troubled waters. The Australians with their two tantalum mines, Wodgina and Greenbushes, unfortunately are closed at the moment. They were recently purchased by a U.S. resource fund, operated for an additional couple of years and they claimed to have incurred higher mining costs because they were getting deeper in the mine and the metallurgy has changed a bit and of course the Australian dollar was also moving up against U.S. dollar, which is the currency that all the mining contracts were written in. So they've since closed their mines and the only source at the moment is coming out of Africa but unfortunately most of product coming out of Africa is being mined as 'military motivated.' They really mean a guy at the top of the mine with a gun and a guy at the bottom of the mine with a shovel. It's a pretty sad situation. The U.N. is trying to clear it up. There are a number of human rights groups chasing after that. So it's causing a problem with the African supply, which was never the favorite supply of the industry. It came with that sort of conflict around it and it also came with no real security of being available tomorrow.

The electronics industry is very "wired" into their future markets because they make all their money in years two, three and four of any given new product. So they very much want to see a long-term supply and this creates a double problem with the African material. Typically it has sold for less than half than what the Australian source has sold for. This creates a huge opportunity for Commerce. I don't like to move ahead on other people's troubles but I do have a group of shareholders to look after. We'll fill the gap left by the unfortunate mining methods of African and the closure of the Australian mines. There is virtually no ethical supplier of tantalum in the world today – commerce intends to jump into that gap. The industry claims they have about two years worth of supply. That would be an extremely aggressive target considering the permitting process. We are about to file a scoping study this fall; we've certainly done the exploration work and we have a discovery. We're moving straight ahead.

Q: Could you also give us a bit of background on niobium?

Hodge: Niobium is quite different even though it's found very close on the periodic table to tantalum. Its highest and best use is as an additive to steel. Two percent niobium will make steel three times stronger. That's very significant because in many applications the weight of the steel is very important. For example, in an automobile the lighter they can make it the more fuel efficient, so niobium is important to any steel that goes into the auto industry. Even for something like making a bridges with those huge steel girders. Essentially a bridge is designed to hold itself up. If there are cars or people walking over it, the weight of the travelers is insignificant compared to the task of merely holding itself up. The actual weight of the bridge is very significant and to reduce that weight reduces the cost and its ability to carry loads.

So niobium is a very important mineral in the world. It's somewhat of an open market. The largest supplier in the world is CBMM. They are the dominant world supplier for niobium. Before the global financial crisis with its downturn, they were very much having trouble keeping up with demand. The price of niobium, even in today's market, is double what the historic price was. It was around \$7/pound and it's currently \$16-\$17/pound. A year ago it was \$30/pound. We've always calculated our profitability on the historic price which is \$7/pound. Even \$16 sounds pretty good to us and combined with the tantalum is going to make our mining operation very profitable indeed.

Q: Do tantalum and niobium often occur together?

Hodge: Yes, often they do and it wasn't until they figured out a way to separate the tantalum from the

niobium that they realized there was such a thing as tantalum. However, in commercial quantities, the world's largest niobium mine, which is owned by CBMM, is called Araxa. It's coincidentally in the same kind of host rock as the Commerce deposit in Blue River; however, they have almost no tantalum in their deposit. And what was formerly the world's leading tantalum mines in Australia, the Greenbushes and Wodgina, virtually had no niobium. So in actual fact, they do often occur together. However, they've historically not often been mined together. The product that we're going to be in a position to offer will have more consistency to the tantalum market because we will have the two products.

Q: One would assume that China is a major end user of these metals.

Hodge: Very much so. In fact, the problems China has been having recently with of some of their heavy equipment and the quality aspect is directly related to not using quite enough niobium. The highest Chinese leader a year ago announced that it was their intention to be OPEC of rare earths. Even though tantalum and niobium aren't technically rare earths they're often considered to be in that family. China has been a high producer and global supplier of some of the rare earths. They're very much into protecting that supply to be used internally now. They're also one of the biggest potential purchaser of tantalum and niobium and with their growing economy they're very much a source of excitement for Commerce Resources.

Q: Since last year's financial crisis has there been any pickup in demand for these metals this year?

Hodge: It would be very difficult to say there has been a pickup because in actual fact the whole world economy has slowed down a notch or two. That has effected the electronics industry, although not nearly as severely as most other industries. Electronics seem to be something that's held to be very important in today's society. Overall consumption in terms of new applications for tantalum has been growing. So the market has been pushed up by the new uses by down by the global economy but essentially the long-term and mid-term future is extremely bright and strong. For every substitute that's found for tantalum there seems to be two or three new uses cropping up that increases the world demand for tantalum.

Q: Please give us a basic summary of your company's flagship property, the Blue River Tantalum-Niobium Project.

Hodge: That general area was where we first began the tantalum/niobium exploration. The original discovery was about 10 kilometers away in a carbonatite called Verity. Typically carbonatites are intrusive and are found in groups or families. They're usually coming up through some sort of weakness in the earth's crust much like kimberlites and found in small groups. We have 8 or 10 different carbonatites in the Blue River area. The one we've identified for mining is called Upper Fir. It runs about 200 grams, or about half a pound, of tantalum per ton and about two pounds per ton of niobium. It's very blessed with the right infrastructure. It's got a provincial highway and a national railway, plus hydroelectric lines from the Revelstoke Dam – they all cross the property. The infrastructure part alone makes a huge difference. We can supply maybe 20-25 percent of the world for 20 years with what's just proven up so far.

The grade would compare to the old Wodgina and Greenbushes mines in Australia. They were actually averaged at about 250 grams per ton. We have about 200 grams per ton. The difference being that our host rock is light and we get a very easy gravity separation and we recover about 80-90 percent of the tantalum and niobium. The host rock for the Australian mines is heavier and they don't get as high as recovery, about 55 percent. So after the gravity separation process, Commerce Resources has the richest tantalum deposit in the world. Those high recoveries are what makes the Blue

River Tantalum-Niobium Project unique in the world.

Q: Can you give us an update of some of the work currently underway at this project?

Hodge: There's lots of stuff going on. We have small drill program going, it will be ongoing through the summer. Its intent is to put a few holes into the existing resource where the engineers didn't quite see eye-to-eye with the geological types and wanted a few more holes to prove it up; those are called infill holes. We're doing some exploration or step-out drilling on the Upper Fir because the drill program that finished last year were supposed to show where the deposit ended but rather than getting smaller it got way bigger. So that should add some tonnage to the deposit. We have a number of other carbonatites and are doing some regional prospecting and soil sampling and pick sampling of outcrops in order to locate some more potential targets in the area. We've got some magnetic ground surveys over a couple of other known carbonatites and that survey, because of a magnetic content in the deposit itself. There's about a 3 percent iron content in the deposit which is a potential by-product, small, but more significantly and more valuable is the fact we can pick up the edges of the carbonatite by taking magnetic readings to show the extent of the deposits.

We do have an exploration project in Quebec called Eldor, which is also a carbonatite. Unfortunately it doesn't have the same infrastructure as the Blue River Project, in fact quite the opposite. It's way up north but it's a huge deposit. We are doing some more work on that deposit to determine the boundaries of it. Roughly speaking it's about three kilometers by 10 kilometers long. We've got some spectacular drill intersections with some high grades but we haven't been able to put it together due to a lack of information but that's what we're doing this summer. Certainly in the longer-term horizon the Eldor carbonatite is going to provide a great inventory base of not only tantalum and niobium but uranium and a whole variety of rare earths that are in some of the different phases within the Eldor carbonatite. We know that we have at least three different phases within the Eldor carbonatite with three different exciting stories. However, they're all kind of mixed up at the moment and that is what a junior exploration company is all about – putting the puzzle together.

Q: Aside from iron, are there any other mineral by-products of tantalum/niobium mining?

Hodge: In the Eldor, yes, there's all different kinds of things. However, the Blue River Project is more pertinent and we're moving toward production there. It's number one target would be tantalum. It's number one product would be niobium, then potentially a very small by-product of magnetite or iron but in the form used in the coal mining industry where there's a good market for it. Also phosphate. There's 3 or 4 percent phosphate in the deposit. That was what Betty French originally staked the area for. That is a potential by-product; 7-8 percent phosphate would make a standalone mine. But if we've already mined it, crushed it and ground it up, most of the cost has already been incurred. So if we can separate a reasonable amount of phosphate just by adding another circuit or two that could also add to the economics of the project. But none of that is a reality and the by-products shouldn't be considered because it's the tantalum that has to make this mine work and if we're mining tantalum you get those by-products thrown in. But if you're not mining tantalum, you're not mining anything.

Q: I understand that tantalum doesn't trade as a commodity, per se, but its price is negotiated. Please explain the pricing mechanism for tantalum.

Hodge: Tantalum prices are negotiated by long-term contracts. Historically those long-term contracts have been very stable and often have a cost of living clause, so to speak, in terms of providing for price increases but typically they're for 3-5 years. They have historically been in the U.S.\$60-\$70/ per contained pound of tantalum in a concentrate. That would equate to about \$140/pound if it was upgraded to a tantalum oxide or a tantalum salt. That's for long-term material. Through the Congo or African

material, sometimes referred to as blood tantalum, it would be priced in the \$25-\$30/per pound in a contained concentrate due to lack of being able to guarantee supply into the future.

Q: How much did tantalum and niobium prices suffer during the credit crisis?

Hodge: Basically they weren't affected by the credit crisis. In many respects even the African price wasn't overly affected because, let's face it, in a cell phone there might only be a dollar's worth of tantalum. As far as the electronics industry is concerned, price isn't really the issue. The cell phone you carry in your pocket, you don't even know if you paid for the tantalum because it comes with that long-term contract. If the cell phone was a dollar more or less it wouldn't matter. What does matter is if it works well. If it drops the call then you're choked. You have an expectation that your cell phone will work almost anywhere under different conditions. And all those conditions all mean that in order to get the good performance the electronics industry needs to provide tantalum capacitors. So at a buck more or a buck less they're going to take the quality every time because that's what you want.

Q: Does Commerce have an institutional following?

Hodge: That's a funny story because about a year and a half ago, someone asked me that same question and at the time we didn't have any following. This was a banker and I asked him, "How do I get one?" He told me to get a following is to do a financing and I'll take you around institution to institution and we'll get an institutional following and away we'll go. So we did that and the timing was great and we raised \$32.7 million at a \$1.20/share. Canada Pension plan put in \$4 ½ million dollars. All of those funds put the money in Commerce Resources with no stated use of proceeds. Bizarre! However, if you look at it we'd been struggling away with this project for about 7 or 8 years. At that time that institutional money [\$32.7 million] would have represented about 35 percent of the share ownership of Commerce. Unfortunately after that, as soon as we closed that financing, the sky started falling and the market dropped off around that time and then the global financial crisis came along and everything dropped again. Fortunately we had that money in the bank but unfortunately many of those institutions were unable to weather the storm and sort of hailed down on us driving our share price down.

But this has created an opportunity for shareholders today in that we're spending money that we raised at \$1.20/share. The stock price got hammered down by those institutions that had no choice and that has exaggerated the opportunity. Commerce Resources is an even better opportunity in the market today because it's backed by \$15 million in cash; \$15 million went into ground to move the project along. It is getting close to a production decision and we do have enough money to get to that decision. I anticipate that it will eventually be financed through some sort of industry arrangement rather than equity but now is a great time for somebody to get involved with Commerce thanks to the dedicated management of me and my team and the opportunity provided by the hedge funds that had to sell.

[Visit the company's web site at www.commerceresources.com for more information.]

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