

CMC Metals Ltd.

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eResearch Corporation is pleased to provide a **SCORIS** report on a silver company:
CMC Metals Ltd. (TSX-V: CMB)



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CMC Metals Ltd.

November 29, 2010



UPFRONT

Silver continues to be the brightest star within the precious metal segment, and there is every reason to believe this will continue, especially as the world seems to be entering into a new round of monetary easing with the United States in the driver's seat.

The Federal Reserve recently announced that a new QE-program (quantitative easing) is about to start, giving a mandate to the Fed to buy long-term bonds for a total amount of US\$600B until the end of Q2 next year.

The purpose is to artificially lower interest rates with the hope of giving support to the weak, and still declining, housing market, and also to stimulate the economy by encouraging more loans and consumption.

In this inflation-driven environment, the price of silver should continue upwards. With this premise as our starting point, we highlight an interesting company that seems to be well-placed to benefit from a strong silver market.

Quick Facts

Company:	CMC Metals Ltd.
Symbol:	CMB (TSX-V)
Shares O/S:	43 M (fully diluted 51 M)
Market Cap:	At C\$0.33 cents; C\$14.2M (not FD)
Resources:	9.1 Moz Ag; 17.7 Mlbs Pb; and 20.0 Mlbs Zn (not NI 43-101 compliant)
Cash:	US\$500,000, plus income from recently-sold bulk sample (~US\$500,000)
Metals:	Silver, lead and zinc
Website:	www.cmcmetals.ca

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A. Introduction

CMC Metals Ltd. (“CMC Metals” or the “Company”) is a “producing” silver junior active in Yukon, Canada. Its main project, the Silver Hart Mine, contains high silver concentrations directly at the surface. A bulk sample of 138 tons was recently sold to a buyer in China, and the average grades were impressive: ~5000 g/t Ag, ~20% lead, ~6% zinc, and ~0.5% copper. Drill samples from the Silver Hart mineralization have shown grades as high as 54 kg Ag/t (!).

The key management people at CMC Metals are: (1) CEO – Donald Wedman, with 25 years’ of experience in the mining industry; (2) CFO – Michael Scholz, previously a lawyer and partner in a law firm; and (3) Director - Steve Mathiesen, with previous experience as a business lawyer. Mr. Mathiesen was also the founder of a predecessor company that later became CMC Metals.

CMC Metals also owns a mill in California (Bishop Mill) which has a capacity of 100 tons per day (tpd) for a number of different metals. The plant is expected to obtain all necessary permits by spring 2011, and to begin generating cash flow in June next year. CMC Metals has signed a letter of intent with a small mining company in the area to develop some zones of mineralized rocks to provide feed for the mill. CMC Metals says they will have enough ore to fill the mill but can also pursue toll milling agreements with other small miners.

Cash flow from these two income sources, in relation to the Company’s current low market cap, is quite significant (see *G. Calculation Exercise* below).

B. Projects

CMC Metals has several projects, with the principal one being the Silver Hart Mine in Yukon Territory, where preliminary “production” has started with a bulk sample that was mined, shipped, and sold. The Company also has projects at Logjam in the Yukon, and at Wheelbarrow in British Columbia. Another project area for CMC Metals is to develop around its Bishop Mill in California.



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C. Silver Hart Mine

The Silver Hart Mine is CMC Metals's main project containing high silver grades and significant base metal credits. Only 10% of the Silver Hart area has been explored so far.

Photo #1: Drilling at Silver Hart Mine



Silver Hart consists of a number of high concentration zones (KL, M, S, and TM), where grades over 54 kg/t Ag have been seen in drill cores. There is an existing NI 43-101 calculation for Silver Hart, but it underestimates the potential since it does not take into account any of the historical data available. Furthermore, 90% of the TM-zone is not included in the calculation since they used cut-off levels that would apply to underground mining, despite the fact that the TM-zone will be mined as an open pit.

Also, the NI 43-101 did not take into account the 10% twin hole drilled to confirm the TM-zone. Because of this, Donald Wedman, who is a mining engineer, carried out an internal resource calculation (not NI 43-101 compliant). It includes the historical data (6.6 Moz Ag according to the historical numbers), the exploration data carried out more recently, and the confirmation of the TM-zone. This resource calculation shows these numbers:

Silver: 9.1 Moz Lead: 17.7 Mlbs Zinc: 20.0 Mlbs

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CMC Metals is now waiting for the final grades from the bulk sample to decide whether to update the existing NI 43-101 calculation. Silver Hart has an average concentration of 1930 g/t Ag but the area currently being mined shows more than twice that concentration. Samples were taken from every "super sac" containing 1.0 - 1.5 ton ore each that were sent as bulk samples. These samples showed average grades of over 5000 g/t Ag as well as 20% lead.

The following are drill results presented in a press release from October 25:

Zone	Hole #	Intersect Depth Meters	Intersect Width Meters	True Width Meters	Silver opt	Silver grams/tonne	Lead Percent	Copper Percent	Zinc Percent
TM	10-03	41.40	0.80	0.32	44.0	1510	12.75	0.37	25.90
TM	10-04	21.80	0.48	0.19	18.1	622	1.12	0.20	26.60
TM	10-04	29.80	0.20	0.18	24.4	838	5.40	0.14	6.67
S	10-19	29.50	0.15	0.13	54.0	1850	0.94	0.34	10.45
S	10-19	31.59	0.16	0.14	284.4	9750	54.41	0.95	5.48
S	10-20	26.82	0.36	0.24	175.6	6020	7.90	0.88	22.72
KL	10-05	22.95	1.65	1.49	8.2	282	0.44	0.06	3.18
KL	10-10	26.10	0.78	0.73	65.9	2258	16.65	0.51	2.18
	Incl.	26.30	0.38	0.35	125.7	4310	33.45	0.86	2.42
KL	10-10	30.56	0.64	0.60	22.7	779	0.75	0.45	8.25
	Incl.	30.71	0.29	0.27	40.7	1395	1.30	0.87	16.30

While the mill at Silver Hart Mine is in the process of being completed with all permits necessary, CMC Metals has started to sell bulk samples. This is possible since the mineralization is of such high grade, and CMC Metals already has the permit to mine the ore.

Photo #2: Bulk Sample at Silver Hart Mine



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The first bulk sample has been sent to a customer in China, and CMC Metals has received a letter of credit for US\$572,000 for 138 tons of ore.

For next year, a larger sample of 2000-3000 tons is planned, since the Company has a special Class III permit which will allow it to increase the bulk sample this much. As shown in *G. Calculation Exercise* below, this translates into considerable income for CMC Metals.

D. Silver Hart Mill

The mill at Silver Hart Mine is near completion. What is now needed are the permits from the Yukon Environmental and Socio-economic Assessment Board (YESAB). This is the reason CMC Metals has started to produce bulk samples while waiting for these permits. Although it is difficult to know the precise timing for when the mill will be up and running, the Company is providing YESAB with all the necessary information, and hopes the process will be swift.

The mill has a capacity of 80 tpd, which would correspond to about 670 000 oz Ag per year as CMC Metals is not counting on production in the winter due to usual adverse weather conditions. It is possible to have year-round production, but this would increase the mining costs, being open pit. The mill can also be expanded to 250 tpd if necessary, but this would require additional permits.

E. Bishop Mill

CMC Metals owns a mill in California where all the necessary permits, except water, are in place. The water permit will be considered by the Water Board in Inyo County in February. CMC Metals expects to obtain the permit soon thereafter, which would allow a tailings pond to be built around March-April. Assuming this works out as planned, commercial production should be able to begin in June.

The capacity will be 100 tpd (with the option to expand to 1000 tpd).

The plan is to mine the mineralization in the nearby area through a joint-venture ("JV"). CMC Metals has signed a letter of intent for the development of these areas. The Company also states that it believes it has enough ore to run the mill at full capacity without processing ore from other mines in the area. CMC Metals has had offers from three parties to either start a JV, or simply receive payments to process ore from other mines.

Bishop Mill can concentrate gold and sulfide ores gravimetrically. This could, potentially, provide income of US\$4-5 million. This alone is about 30% of the Company's current market cap.

F. Other Project Areas

(1) Logjam

The Yukon site is called Logjam and consists of an area with known historical silver mineralization. CMC Metals needs to carry out drilling to assess the potential of this area.

(2) Wheelbarrow

The site in British Columbia, known as Wheelbarrow, has recently been drilled by CMC Metals, and the results from 5 drill holes are expected shortly. This is a mineral rich area where considerable exploration has taken place. Silver, gold, and base metals in significant concentration have been found here.

G. Calculation Exercise

The recently-sold bulk sample makes possible a rough estimation of CMC Metals's earning capacity for 2011. CMC Metals believes that possible bulk samples for 2011 are 2000-3000 tons, since this is what its Class III permit allows.

The recently-mined bulk sample was 138 tons. The Company received US\$572,000 for this, based on a silver price of US\$23.73/oz. Costs for shipping, mining, analyses, insurance, fuel, salaries etc. were a total of US\$140,000. These costs per oz Ag produced will decrease as the bulk sample size increases. Also, significant base metal credits have not been taken into account in the calculation.

(1) Grades for this bulk sample:

$US\$572,000 / US\$23.73/oz = 24,104 \text{ oz Ag}$
 $24,104 \text{ oz Ag} \times 31.3 = 749,650 \text{ gram Ag}$
 $749,650 \text{ gram Ag} / 138 \text{ tons} = 5432 \text{ g/t Ag (very high grades!)}$

(2) Possible earning capacity for 2011 from Silver Hart Mine alone:

$US\$140,000 / US\$572,000 = \text{costs (or about 25\%)}$

We expect similar grades from the next bulk sample as it is taken from the same zone. However, to be conservative, the assumed grade is reduced to 3500 g/t.

Thus, 2000 tons bulk sample would give:

$2000 \text{ tons} \times 3500 \text{ g/t} = 7,000,000 \text{ gram Ag}$
 $7,000,000 \text{ gram Ag} / 31.3 = 225,000 \text{ oz Ag}$
 $225,000 \text{ oz Ag} \times US\$24/oz = US\$5.4 \text{ million}$
After costs of 25% = **US\$4 million**

3000 tons bulk sample, under the same assumptions, would give = **US\$6 million.**

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Add to this a possible earnings capacity from Bishop Mill of US\$4-5 million per year. Compare this to the current market cap of US\$14 million and the potential seems obvious.

CMC Metals could earn almost its entire market cap in one year under these assumptions.

(c) Earning capacity when the Silver Hart Mill is up and running:

CMC Metals states that production costs will be low. Exactly what they will be is not known, but the bulk sample gives a good indication. For simplicity, assume US\$10/oz, although it likely will be lower considering that it is open pit. 80 tpd, corresponding to about 670,000 oz per year, and using a silver price of US\$25/oz, would give:

$$670,000 \text{ oz} \times (\text{US}\$25/\text{oz} - \text{US}\$10/\text{oz}) = \text{US}\$10 \text{ million.}$$

These are rough calculations, but they indicate how inexpensive CMC Metals seems at its current market cap of C\$14 million (US\$1 ≈ C\$1). The market could discover this at any time.

H. Risks

The first and most obvious risk is that CMC Metals is a small company in production start-up phase. Things could go wrong.

The second risk is the permitting: the mill permit in Yukon, and the water permit in California. However, the Company is able to continue mining and selling bulk samples from Silver Hart Mine in Yukon, substantially decreasing this risk.

The third risk is the silver price, especially after the recent sharp run-up. Nevertheless, we believe there will be still higher silver prices in the coming years.

I. Conclusions

CMC Metals appears to be on the verge of producing substantial cash flow, which is not yet reflected in its market cap. The diversification of income between the bulk samples and the significant income from Bishop Mill in California is providing some stability. In our opinion, the shares appear cheap at their current price.

CMC Metals say it is getting inquiries about ore processing at Bishop Mill every week from surrounding mines in California. The Company states that the pay-back period for the Bishop Mill is 1.5 months.

Also, the fact that the grades at Silver Hart are as high as >5000 g/t Ag, plus high levels of lead and zinc, means that production costs can be kept low. The bulk samples make it possible for CMC Metals to grow without diluting the stock through private placements. A company with the precondition to earn almost its entire market cap in one year is rare. Our opinion is that CMC Metals is an interesting silver junior. A growing, producing resource company should at least be valued at 4-5 times its annual profit.

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Photo #3: Silver Hart Mine



Photo #4: Visible Silver Mineralization at Silver Hart Mine



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