

**UNITED STATES  
SECURITIES AND EXCHANGE COMMISSION  
Washington, D.C. 20549**

**FORM 10-K**

(X) ANNUAL REPORT PURSUANT TO SECTION 13 OR 15(D) OF THE SECURITIES EXCHANGE ACT OF 1934

For the fiscal year ended **March 31, 2010**

Commission File Number **1-7375**

**COMMERCE GROUP CORP.**

(Exact name of registrant as specified in its charter)

**WISCONSIN**

(State or other jurisdiction of incorporation or organization)

**39-6050862**

(I.R.S. Employer Identification No.)

**6001 North 91st Street**

**Milwaukee, Wisconsin 53225-1795**

(Address of principal executive offices) (Zip Code)

Registrant's telephone number, including area code: **(414) 462-5310**

**Securities registered pursuant to Section 12(b) of the Act:**

<u>Title of each class</u>	<u>Name of each exchange on which registered</u>
Common Shares \$0.10 par value	Pink OTC Markets (OTCQB)
Common Shares \$0.10 par value	Over the Counter Bulletin Board (OTCBB)
Common Shares \$0.10 par value	Berlin-Bremen Stock Exchange (C9G)

**Securities registered pursuant to Section 12(g) of the Act: None**

Indicate by check mark if the registrant is a well-known seasoned issuer, as defined in Rule 405 of the Securities Act. Yes  
 No

Indicate by check mark if the registrant is not required to file reports pursuant to Section 13 or Section 15(d) of the Act. Yes  
 No

Indicate by check mark whether the registrant (1) has filed all reports required to be filed by Section 13 or 15(d) of the Securities Exchange Act of 1934 during the preceding 12 months (or for such shorter period that the registrant was required to file such reports), and (2) has been subject to such filing requirements for the past 90 days. Yes  No

Indicate by check mark whether the registrant has submitted electronically and posted on its corporate Web site, if any, every Interactive Data File required to be submitted and posted pursuant to Rule 405 of Regulation S-T (§ 229.405 of this chapter) during the preceding 12 months (or for such shorter period that the registrant was required to submit and post such files). Yes  
 No

Indicate by check mark if disclosure of delinquent filers pursuant to Item 405 of Regulation S-K is not contained herein, and will not be contained, to the best of registrant's knowledge, in definitive proxy or information statements incorporated by reference in Part III of this Form 10-K or any amendment to this Form 10-K.

Indicate by check mark whether the registrant is a large accelerated filer, an accelerated filer, a non-accelerated filer, or a smaller reporting company.

Large accelerated filer [ ]  
Non-accelerated filer [ ]  
(Do not check if a smaller reporting company)

Accelerated filer [ ]  
Smaller reporting company [x]

Indicate by check mark whether the issuer is a shell company (as defined in Rule 12b-2 of the Exchange Act). Yes [ ] No [x]

The aggregate market value of the 19,505,778 registrant's common shares held by nonaffiliates of the registrant based on the closing sale price of the OTC BB on April 22, 2010 was approximately \$1,365,404.

At April 30, 2010 there were 30,750,869 shares of the registrant's common stock outstanding.

#### **DOCUMENTS INCORPORATED BY REFERENCE**

None.

**COMMERCE GROUP CORP.**  
**2010 FORM 10-K ANNUAL REPORT**  
**For the Fiscal Year Ended March 31, 2010**

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## PART I

### **Item 1. Business**

#### **Glossary of Selected Mining Terms**

Cut-off Grade	The minimum grade of ore used to establish reserves.
Doré	Unrefined gold and silver bullion consisting of approximately 90% precious metals that will be further refined to almost pure metal.
Development Stage	A “development stage” project is one which is undergoing preparation of an established commercially mineable deposit for its extraction but which is not yet in production. This stage occurs after completion of a feasibility study.
Exploration Stage	An “exploration stage” prospect is one which is not in either the development or production stage.
Fault	A surface or zone of rock fracture along which there has been displacement.
Feasibility Study	An engineering study designed to define the technical, economic, and legal viability of a mining project with a high degree of reliability.
Formation	A distinct layer of sedimentary rock of similar composition.
Grade	The metal content of ore, usually expressed in troy ounces per ton (2,000 pounds) or in grams per ton or metric tons which contain 2,204.6 pounds or 1,000 kilograms. This report refers to ounces per ton.
Heap Leaching	A method of recovering gold or other precious metals from a heap of ore placed on an impervious pad, whereby a dilute leaching solution is allowed to percolate through the heap, dissolving the precious metal, which is subsequently captured and recovered.
Mineralized Material	The term “mineralized material” refers to material that is not included in the reserve as it does not meet all of the criteria for adequate demonstration for economic or legal extraction.
Mining	Mining is the process of extraction and beneficiation of mineral reserves to produce a marketable metal or mineral product. Exploration continues during the mining process and, in many cases, mineral reserves are expanded during the life of the mine operations as the exploration potential of the deposit is realized.

Net Smelter Return Royalty	A defined percentage of the gross revenue from a resource extraction operation, less a proportionate share or transportation, insurance, and processing costs.
Outcrop	That part of a geologic formation or structure that appears at the surface of the earth.
Probable Reserves	Reserves for which quantity and grade and/or quality are computed from information similar to that used for Proven Reserves, but the sites for inspection, sampling and measurement are farther apart or are otherwise less adequately spaced. The degree of assurance, although lower than that for Proven Reserves, is high enough to assume continuity between points of observation.
Production Stage	A “production stage” project is actively engaged in the process of extraction and beneficiation of mineral reserves to produce a marketable metal or mineral product.
Proven Reserves	Reserves for which (a) quantity is computed from dimensions revealed in outcrops, trenches, workings or drill holes; grade and/or quality are computed from the results of detailed sampling, and (b) the sites for inspection, sampling and measurement are spaced so closely and the geologic character is so well-defined that size, shape, depth and mineral content of reserves are well established.
Reclamation	The process of returning land to another use after mining is completed.
Recoverable	That portion of metal contained in ore that can be extracted by processing.
Reserves	That part of a mineral deposit which could be economically and legally extracted or produced at the time of reserve determination.
Run-of-Mine	Mined ore of a size that can be processed without further crushing.
Strip Ratio	The ratio between tonnage of waste and ore in an open pit mine.
Waste	Barren rock or mineralized material that is too low in grade to be economically processed.

## **Cautionary Statement for Purposes of the “Safe Harbor” Provisions of the Private Securities Litigation Reform Act of 1995.**

The matters discussed in this annual report on Form 10-K, when not historical matters, are forward-looking statements that involve a number of risks and uncertainties that could cause actual results to differ materially from projections or estimates contained herein. Such forward-looking statements include, among others, future expenditures, cash requirement predictions and the ability to finance continuing operations. Factors that could cause actual results to differ materially from these forward-looking statements include, among others, the factors described in this annual report on Form 10-K. Many of these factors are beyond our ability to control or predict.

We disclaim any intent or obligation to update our forward-looking statements, either as a result of receiving new information, the occurrence of future events, or otherwise.

### **General**

Commerce Group Corp. (“Commerce,” the “Company,” and/or the “Registrant” and reference to these identifications such as “we,” “our,” and “us” may be used herein to refer to Commerce or to any or all of wholly-owned subsidiaries of Commerce) is one of the only precious metals company that has produced gold and silver in the past twenty or more years in the Republic of El Salvador, Central America. Starting in 1968, for periods during the 1970's and 1980's Commerce was operative in the exploration, exploitation, development, and production of precious metals in El Salvador.

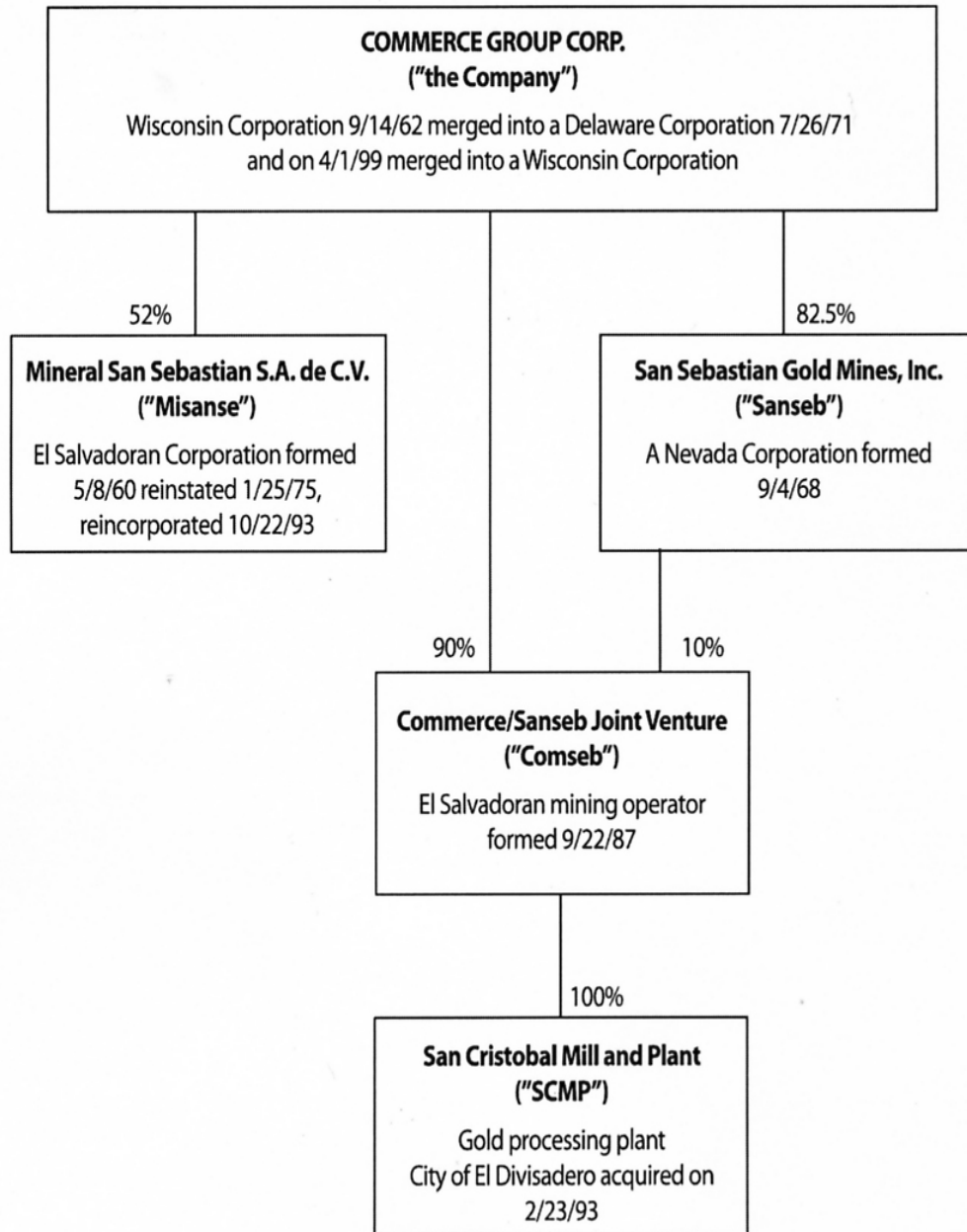
At the present time, Commerce is not in production and its permits from the Government of El Salvador to mine material, operate its mill facility and explore the concessions granted to it have been suspended. Commerce is involved in legal proceedings challenging the actions of the Government of El Salvador. Commerce's current objectives are to restore its rights through the legal process, to restructure in order to obtain required financing, and to then continue with its plans to explore and to produce gold and silver.

Since the death of Commerce's long-time Chairman Edward L. Machulak on October 21, 2007, the Company has been trying to find a compatible acquisition, merger, or other business arrangement that would enable it to proceed with its plans.

Commerce has been a Wisconsin-chartered corporation since its merger from a State of Delaware corporation on April 1, 1999, and its corporate headquarters since its inception has been based in Milwaukee, Wisconsin.

Commerce was organized in 1962 and its common shares have been publicly traded since 1968. The Company's shares trade on the Over the Counter Bulletin Board (OTCBB) under the trade symbol CGCO.OB, on the Pink OTC Markets (OTCQB) under the trade symbol of CGCO, and on the Berlin-Bremen Stock Exchange under the trade symbol of C9G. The organizational chart on the following page reflects the mining organization in El Salvador as of March 31, 2010.

## ORGANIZATIONAL FLOW CHART



## **Company's Website**

Commerce has a website located at <http://www.commercegroupcorp.com>. This website can be used to access recent news releases, U.S. Securities and Exchange Commission filings, the Company's Annual Report, Proxy Statement, Board Committee Charter, and other items of interest. The contents of the Company's website are not incorporated into this document. The U.S. Securities and Exchange Commission filings, including supplemental schedules and exhibits can also be accessed free of charge through the U.S. Securities and Exchange Commission's website at: <http://www.sec.gov>.

## **Precious Metal Mining**

Commerce's ultimate objective is to enhance the value of its shares by locating, developing and producing gold and silver in the Republic of El Salvador.

Commerce does business in the Republic of El Salvador through a joint venture with San Sebastian Gold Mines, Inc., a Nevada corporation. Commerce owns 82½% of the shares of San Sebastian Gold Mines, Inc., and owns a 90% interest in the joint venture. This joint venture was organized on September 22, 1987, and has been named the Commerce/Sanseb Joint Venture ("Joint Venture").

In the past, Commerce produced gold and silver from material mined at the San Sebastian Gold Mine located near the city Santa Rosa de Lima. On July 23, 1987, Commerce secured the concession to operate at this 304-acre site from the El Salvadoran Department of Hydrocarbons and Mines.

In 1993, Commerce acquired a mill for processing gold and silver, known as the San Cristobal Mill and Plant. This facility is located on the Pan American Highway west of the city of El Divisadero. Commerce purchased the equipment on February 23, 1993 and signed a lease for the site on November 12, 1993.

On September 6, 2002, Commerce agreed to cancel the concession for the exploitation of the San Sebastian Gold Mine obtained on July 23, 1987, in exchange for a new concession. On August 18, 2003 the El Salvadoran Ministry of Economy issued a twenty-year concession. On May 20, 2004 the Government of El Salvador extended the exploitation concession at the San Sebastian Gold Mine for a period of thirty years.

Commerce applied for and received environmental permits to mine gold ore at the San Sebastian Gold Mine site, and process ore at the San Cristobal Mill and Plant. On October 15, 2002, the El Salvador Ministry of Environment and Natural Resources ("MARN") issued an environmental permit for the San Cristobal Mill and Plant. On October 20, 2002, MARN issued an environmental permit under Resolution 493-2002 for the new San Sebastian Gold Mine exploitation concession. Financial security bonds were submitted as required.

On March 3, 2003, the Government of El Salvador granted Commerce a new exploration license for a 41-square kilometer area (10,374 acres), which surrounded the site of the San Sebastian Gold Mine and included three other formerly-operated mines (the "New San Sebastian Exploration License").

On May 25, 2004, the Government of El Salvador granted Commerce a new exploration license for an additional 45 square kilometers of area (11,115 acres) to the North of and abutting the New San Sebastian Exploration License area. This new license area encompassed eight formerly-operated gold and silver mines (the "Nueva Esparta Exploration License").



Then, on or about September 13, 2006, MARN notified Commerce that it revoked the environmental permits issued for the San Sebastian Gold Mine exploitation concession and the San Cristobal Mill and Plant, effectively terminating Commerce right to operate. On October 10, 2006, Commerce applied to MARN for an environmental permit for its exploration of the New San Sebastian Exploration License and the Nueva Esparta License. MARN did not respond to the request and on March 8, 2007, Commerce applied to the El Salvador Ministry of Economy for an extension of these exploration licenses. On October 28, 2008, the Ministry of Economy denied Commerce's application citing Commerce's failure to secure an environmental permit.

On December 6, 2006, Commerce's legal counsel filed with the El Salvadoran Court of Administrative Litigation of the Supreme Court of Justice two complaints challenging the government's revocation of Commerce's permits for the San Sebastian Gold Mine and for the San Cristobal Mill and Plant. On January 20, 2009, Commerce's legal counsel filed a challenge in the Courts to the government's refusal to honor Commerce's request to extend the New San Sebastian Exploration License and the Nueva Esparta License. On March 17, 2009, Commerce delivered a Notice of Intent to commence international arbitration proceedings against the Government of El Salvador under the Central America Free Trade Agreement-Dominican Republic (CAFTA-DR). The parties had 90 days to resolve their dispute amicably, after which the Company had the right to commence arbitration proceedings against the Government of El Salvador to claim significant monetary damages. Since the Company received no response to the Notice of Intent, on July 2, 2009 it submitted to the International Centre for Settlement of Investment Disputes (ICSID) a notice of arbitration to commence international arbitration proceedings against the Government of El Salvador under CAFTA-DR. The request for arbitration was registered with the ICSID on August 21, 2009. On July 1, 2010 the Company received notice from the ICSID that the three nominations for arbitrators in the Company's action under CAFTA-DR have all accepted their appointments. As a result, the Arbitral Tribunal was therefore deemed under ICSID Arbitration Rule 6 to have been constituted.

### ***Operations***

The Company is not producing gold or silver at the present time, and will not be able to continue in operation unless its permits are restored.

Commerce and San Sebastian Gold Mines, Inc. began producing gold at the San Sebastian Gold Mine site in 1968. In February 1978, the Company suspended operations because of the war in El Salvador. The mill which had been constructed on site at the San Sebastian Gold Mine was destroyed during the war. Commerce returned to the site in 1985, and obtained a concession to resume production in 1987. In 1993, Commerce acquired the San Cristobal Mill and Plant, and from March 1995 through December 31, 1999 produced 22,710 ounces of bullion containing 13,305 ounces of gold and 4,667 ounces of silver at this facility, processing material from the San Sebastian Gold Mine.

From 2003 until about October 2008 when the Company was informed that extension of its exploration license would not be honored, the Company was performing limited exploration in the New San Sebastian Exploration and the Nueva Esparta Exploration License areas at the La Lola Mine, the Santa Lucia Mine, the Tabanco Mine, and the Montemayor Mine, and since 2005 until about October 2008 at the La Joya Mine.

The Company does not have a final feasibility study completed within the past five years, therefore, it cannot provide reserve estimates.

For the fiscal year ended March 31, 2009, the Company performed an impairment test over long-lived assets including mining resources and property, plant and equipment. Testing for impairment of long-lived assets requires significant management judgment regarding future cash flows, asset lives, and discount rates. The Company considered a number of factors including the cancellation of its permits by the Government of El Salvador, the fact that there has been no resolution of the Company's legal challenges to this action initiated in El Salvador, the unwillingness of the El Salvadoran Government to engage in any discussions after the Company gave notice of its intent to file for arbitration under CAFTA-DR on March 17, 2009 (and consequently, the need to file for arbitration before the International Centre for Settlement of Investment Disputes (ICSID) on July 2, 2009), and public statements made by members of the Government of El Salvador elected in March 2009.

Given all of these factors and events, the Company determined that its assets have been impaired and the Company has made significant adjustments to account for impairment. A pre-tax charge of \$21,213,950 was recognized in the fourth quarter ending March 31, 2009, fully impairing the mining resource assets. Additionally, a pre-tax charge of \$4,835,353 was recognized in the fourth quarter ending March 31, 2009, related to impairment of plant and equipment. The Company did not impair the plant and equipment for the amount of \$116,324 during the fourth quarter ending March 31, 2009 because it believed that it would be fully recoverable. During the fiscal year ended March 31, 2010, \$40,002 was recovered and the remaining balance of \$76,322 represents the cost of land that management believes is fully recoverable.

### ***SSGM Joint Venture Arrangements***

Commerce owns 82 1/2% of the authorized and issued common shares of San Sebastian Gold Mines, Inc. ("Sanseb"), a Nevada corporation formed on September 4, 1968. Approximately 200 unrelated shareholders hold the balance of Sanseb's shares.

On September 22, 1987, Commerce and Sanseb entered into a joint venture agreement (named the "Commerce/Sanseb Joint Venture" and sometimes referred to herein as the "Joint Venture") to formalize the relationship between Commerce and Sanseb with respect to the mining venture and to divide profits. The terms of this agreement authorize Commerce to supervise and control all of the business affairs of the Joint Venture. Under this agreement 90% of the net pre-tax profits of the Joint Venture will be distributed to Commerce and ten percent to Sanseb, and because Commerce owns 82 1/2% of the authorized and issued shares of Sanseb, Commerce in effect has an over 98% interest in the activities of the Joint Venture. In order to maintain current accounting between Commerce and Sanseb, the interest charges to Sanseb on advances made by Commerce are kept separately. Therefore, when profits are earned, the recorded interest due to Commerce will be paid from the cash distributions due and payable to Sanseb.

The Joint Venture leases the SSGM from the Company's 52%-owned subsidiary, Mineral San Sebastian, S.A. de C.V. ("Misanse"), an El Salvadoran corporation. On January 14, 2003, the Company entered into an amended and renewed 30-year lease agreement with Mineral San Sebastian Sociedad Anonima de Capital Variable (Misanse) pursuant to the approval of the Misanse shareholders and Misanse directors at a meeting held on January 12, 2003. The renewed lease is for a period of time commencing and coinciding with the date that the Company received its Renewed San Sebastian Gold Mine Exploitation Concession, hereinafter identified as the "Renewed SSGM," from the Ministry of Economy's Director of El Salvador Department of Hydrocarbons and Mines (DHM). The lease is automatically extendible for one or more equal periods. The Company will pay to Misanse for the rental of this real estate the sum of five percent of the sales of the gold and silver produced from this real estate, however, the payment will not be less than \$343.00 per month. The Company has the right to assign this lease without prior notice or permission from Misanse. This lease is pledged as collateral for loans made to related parties (Item 8. Financial Statements and Supplementary Data, Note 7).

The Joint Venture is registered as an operating entity to do business in the Republic of El Salvador, Central America. The Joint Venture Agreement authorizes Commerce to execute agreements on behalf of the Joint Venture.

### **Organizational Structure**

The consolidated financial statements include the accounts of the Company, its majority-owned subsidiaries, and its Commerce/Sanseb Joint Venture, but it excludes its 52% ownership of Mineral San Sebastian S.A. de C.V.

Mineral San Sebastian, S.A. de C.V. (Misanse) is not included in the consolidated statements as the Company does not have corporate control of Misanse because the majority of Misanse's elected directors must be El Salvadoran shareholders. Upon consolidation, all intercompany balances and transactions are eliminated.

<u>Included in the Consolidated Statements</u>	<u>% Ownership</u>	<u>Charter/Joint Venture</u>	
		<u>Place</u>	<u>Date</u>
Homespan Realty Co., Inc. (“Homespan”)	100.0	Wisconsin	02/12/1959
Ecomm Group Inc. (“Ecomm”)	100.0	Wisconsin	06/24/1974
San Luis Estates, Inc. (“SLE”)	100.0	Colorado	11/09/1970
San Sebastian Gold Mines, Inc. (“Sanseb”)	82.5	Nevada	09/04/1968
Universal Developers, Inc. (“UDI”)	100.0	Wisconsin	09/28/1964
Commerce/Sanseb Joint Venture (“Joint Venture”)	90.0	Wisconsin El Salvador	& 09/22/1987
<u>Not included in the Consolidated Statements</u>			
Mineral San Sebastian, S.A. de C.V. (“Misanse”)	52.0	El Salvador	05/08/1960

Commerce was originally formed as a Wisconsin corporation (September 14, 1962). It then merged into a Delaware corporation on July 26, 1971 and on April 1, 1999 it merged back into a Wisconsin corporation. It owns 52% of Misanse, an El Salvadoran corporation that was formed on May 8, 1960, reinstated on January 25, 1975 and reincorporated on October 22, 1993. Misanse previously had a mining concession with the government of El Salvador and is the owner of the SSGM real estate. At that time, Misanse had assigned the mining concession to Commerce Group Corp. and San Sebastian Gold Mines, Inc., the mining operator formed on September 22, 1987 and known as the Commerce/Sanseb Joint Venture (Joint Venture). It conducted exploration and operations at the SSGM starting in October 1968; it mined and sold gold from 1972 through March 1978 and from April 1, 1995 through December 1999. Commerce also owns 82 1/2% of the San Sebastian Gold Mines, Inc. (SSGM) which was chartered as a Nevada corporation on September 4, 1968.

## **World Gold Market Price, Customers and Competition**

The price of gold and silver is unpredictable, volatile, and is affected by numerous factors beyond the Company's control, including, but not limited to, expectations for inflation, the relative strength of the United States' dollar in relation to other major worldwide currencies, political and economic conditions, central bank sales or purchases, inflation, and production costs in major gold-producing regions. The Company has not and does not expect in the foreseeable future to engage in hedging or other similar transactions to minimize the risk of fluctuations in gold prices or currencies. The Company's past practice has been to sell its gold and silver at the world market spot prices. Gold and silver can be sold on numerous markets throughout the world, and the market price is readily ascertainable for such precious metals. There are many worldwide refiners and smelters available to refine these precious metals. Refined gold and silver can also be sold to a large number of precious metal dealers on a competitive basis. When it was producing doré, the Company's SCMP sold the doré to a refinery located in the United States. During the past five years (March 31, 2005 to March 31, 2010) the London PM Fix gold price has fluctuated between a low of about \$411 per ounce in February of 2005 and a high of about \$1213 per ounce in December 2009.

At this time the Company believes that, due to its current financial capacity, it may not be a major gold producer based on the size of larger existing gold mining companies. At this time the Company believes no single gold-producing company could have a large impact to offset either the price or supply of gold in the world market. There are many mining entities in the world producing gold. Many of these companies have substantially greater technical and financial resources and larger gold ore reserves than the Company.

The Company's profitability and viability are dependent upon, not only the price of gold in the world market (which can be unstable), but also upon the political stability of El Salvador, the cooperation of the Government of El Salvador in issuing needed environmental and other permits, and the availability of adequate funding for the SSGM open-pit, heap-leaching operation and for the exploration projects.

## **Seasonality**

Seasonality does not have a material impact on the Company's operations, but the rainy season in El Salvador (May through November) can subdue production.

## **Environmental Matters**

The Company's operations are subject to environmental laws and regulations adopted by various governmental authorities in the jurisdictions in which the Company operates. Accordingly, the Company has adopted policies, practices and procedures in the areas of pollution control, product safety, occupational health and the production, handling, storage, use and disposal of hazardous materials to prevent material environmental or other damage, and to limit the financial liability which could result from such events. However, some risk of environmental or other damage is inherent in the business of the Company, as it is with other companies engaged in similar businesses.

The Company is required to maintain environmental permits to operate in El Salvador. The issuance of these permits is under the jurisdiction of the El Salvador Ministry of Environment and Natural Resources Office (MARN). On October 15, 2002, MARN issued an environmental permit under Resolution 474-2002 for the SCMP. On October 20, 2002, MARN issued an environmental permit under Resolution 493-2002 for the Renewed SSGM Exploitation concession. Financial security bond(s) were submitted as required. These permits were renewed for a three-year period with the issuance of Resolution No. 3026-003-2006 dated January 4, 2006.

On or about September 13, 2006, without any prior notice, the El Salvador Ministry of Environment's office delivered to Commerce's El Salvadoran legal counsel, its revocation of the MARN Resolution dated July 6, 2006 which included its San Sebastian Gold Mine Exploitation and San Cristobal Mill and Plant environmental permits. These were the only permits of their kind issued in the Republic of El Salvador. The Company's El Salvadoran legal counsel, after reviewing the two letters (one for the SSGM exploitation concession and the other for the SCMP), concluded that the revocation of these permits was arbitrary, illegal and unconstitutional and he so stated in a September 20, 2006 letter to the Ministry of Environment.

On or about December 6, 2006, the Company's legal counsel filed with the El Salvadoran Court of Administrative Litigation of the Supreme Court of Justice two complaints contesting the revocation of the environmental permits: one for the San Sebastian Gold Mine and the other for the San Cristobal Mill and Plant. In these complaints the Company asserted:

1. Violation of the Right to a Hearing and Due Process – pursuant to Articles 88 and 93 of the Environmental Law. On January 4, 2006 under MARN Resolution No. 3026-003-2006, the environmental permit was extended.
2. Lack of legal foundation for the sanction – the Company was not in production, therefore, it could not be in violation. This fact was verified by a written MARN report after a site inspection on June 23, 2006.
3. Excess of Authority – besides revoking the environmental permit, MARN ordered the closing of operations which said determination and authority are under the jurisdiction of the El Salvador Ministry of Economy's office.

In October 2008 the Directorate of Mines notified the Company that it was not honoring the Company's previous request for an extension of the exploration permits at the San Sebastian and Nueva Esparta areas. The Company believes this notice is unwarranted and an appeal is pending.

All operations by the Company involving the exploration or the production of minerals are subject to existing laws and regulations relating to exploration procedures, safety precautions, employee health and safety, air quality standards, pollution of water sources, waste materials, odor, noise, dust and other environmental protection requirements adopted by the El Salvador governmental authorities. The Company was required to prepare and present to such authorities data pertaining to the effect or impact that any proposed exploration or production of minerals may have upon the environment. The requirements imposed by any such authorities may be costly, time consuming and may delay operations. Future legislation and regulations designed to protect the environment, as well as future interpretations of existing laws and regulations, may require substantial increases in equipment and operating costs to the Company and delays, interruptions, or a termination of operations. The Company cannot accurately predict or estimate the impact of any such future laws or regulations, or future interpretations of existing laws and regulations, on its operations.

## **Republic of El Salvador, Central America Information Sources**

The most current information about El Salvador can be obtained from the following sources:

1. General information can be obtained through the Internet from the following websites:  
<http://www.usinfo.org.sv/eng/irc/svlinks.html> and <http://www.dirla.com/elsalvador2.html>.
2. The U.S. Embassy in El Salvador can also be contacted at Final Boulevard Santa Elena, Antiguo Cuscatlán, La Libertad, telephone (011) 503-2501-2999 and fax (011) 503-2501-2150 or at its website:  
<http://sansalvador.usembassy.gov>.

## **Operations, Other Than Mining**

Commerce independently and through its partially and wholly-owned subsidiaries conducted other business activities, which at present are suspended. Previous operations consisted of the following: (1) land acquisition and real estate development through its wholly-owned subsidiaries, San Luis Estates, Inc. (“SLE”) and Universal Developers, Inc. (“UDI”); (2) real estate sales, through its wholly-owned subsidiary, Homespan Realty Co., Inc. (“Homespan”); and (3) advertising and various businesses, including Internet-related businesses, through its subsidiary, Ecomm Group Inc. (“Ecomm”).

## **Land Acquisition, Development, Ownership and Real Estate Sales**

The Company has suspended its activities in the business of real estate development conducted principally through its subsidiaries San Luis Estates, Inc. (“SLE”), a Colorado corporation, and Universal Developers, Inc. (“UDI”), a Wisconsin corporation.

Misense, the Company’s majority-owned subsidiary (52%) owns the SSGM real estate consisting of approximately 1,470 acres. This real estate is located approximately two and one-half miles northwest of the city of Santa Rosa de Lima, off of the Pan American Highway (a four-lane, first-class highway), about 108 miles southeast of the capital city of San Salvador, El Salvador, and is about 11 miles west from the border of the Country of Honduras. It is also about 26 miles from the city of La Union which has railroad and port facilities. The Company, on January 14, 2003, renewed its lease into a long-term lease arrangement with Misense.

In October 2009, the Company terminated its lease of approximately 166 acres of real estate on which it has its SCMP. These facilities were located on the Pan American Highway, near the City of El Divisadero.

The Company, through its late Chairman, owns approximately 63 acres of land on the Modesto Mine site which is located due north of the city of Paisnal and approximately 19 miles north of San Salvador, the capital city of El Salvador. This real estate is pledged as collateral for funds advanced to the Company. The Company also has permission from a number of property owners to explore, exploit and develop the Montemayor Mine in the Department of Morazan.

Reference is made to “Item 2. Properties,” for additional information.

Homespan, the local real estate marketing subsidiary of the Company, is presently inactive. It has no significant activity and is not material to the Company’s operation.

## **Employees**

As of March 31, 2010, the Company and its wholly-owned subsidiaries employed approximately 15 to 20 full and part-time persons in El Salvador, which number may adjust seasonally. None of the Company's employees are covered by collective bargaining agreements.

## **Patents, Trademarks, Licenses, Franchises, Concessions & Government Contracts**

Other than concessions, licenses and interests in mining properties granted by the Government of El Salvador and permission from private landowners, the Company does not own any material patents, trademarks, licenses, franchises or non-mining concessions.

## **Significant Customers**

The Company presently has no individual significant customers in which the loss of one or more would have an adverse effect on any segment of its operations or from whom the Company has received more than ten percent of its consolidated revenues, except for the sale of gold when the Joint Venture was mining gold. The gold in doré form was refined and then sold at the world market spot price to a refinery located in the United States. Given the marketability and liquidity of the precious metals sold and because of the large source of qualified buyers of gold and silver, the Company believes that a loss of its customers could be quickly replaced without any adverse affect.

## **Miscellaneous**

Backlog orders at this time are not significant to either the Company's or its majority-owned subsidiaries' areas of operations, nor at this time is any portion of their operations subject to renegotiation of profits or termination of contracts at the election of the United States' Government.

At this time, neither the Company nor its majority-owned subsidiaries conduct any material research and development activities, except as indicated in this report with respect to the Joint Venture and its mining exploration programs in the Republic of El Salvador, Central America.

The Company believes that the United States' federal, state and local provisions regulating the discharge of materials into the environment should not have a substantial effect on the capital expenditures, earnings or competitive position of the Company or any of its majority-owned subsidiaries as the Company does not have any mining activity in the United States.

## **Item 1A. Risk Factors**

The Company's right to explore for gold and silver and to conduct mining at its properties in El Salvador is dependent upon permission from the Government of El Salvador. At the present time, the Government of El Salvador has for all intents and purposes, prohibited precious metal mining in the Republic of El Salvador. The Company is unable to predict if and when this policy will change. This has hampered not only mining activities, but also, the Company's ability to find a suitable investment partner.

On or about September 13, 2006, the El Salvador Ministry of the Environment delivered to Commerce's El Salvadoran legal counsel its revocation of the environmental permits issued for the SSGM and SCMP. The Company is contesting these actions in legal proceedings, but there can be no assurances as to what the outcome will be.

In October 2008 the Directorate of Mines notified the Company that it was not honoring the Company's previous request for an extension of the exploration permits at the San Sebastian and Nueva Esparta areas. The Company is contesting these actions in legal proceedings, but there can be no assurances as to what the outcome will be.

The Company's main objective and plan has been to operate a moderate tonnage, low-grade, open-pit, heap-leaching operation to mine gold on its SSGM site. Since the death of Commerce's long-time Chairman Edward L. Machulak on October 21, 2007, the Company has been directing most of its efforts toward finding a compatible acquisition, merger, or other business arrangement. At the present time, the Company cannot proceed with its plans because the government of El Salvador has revoked the necessary permits.

If the Company's permits to conduct mining activity are restored, the Company will need to raise adequate funds from outside sources for its proposed operations. There have been and will be no revenues for so long as the Company is not in production.

The Company has recurring net losses, negative working capital and negative cash flow from operations, and is dependent upon raising capital to continue operations. The Company's ability to continue as a going concern is subject to its ability to generate a profit and/or obtain necessary funding from outside sources, including obtaining additional funding from the sale of its securities, increasing sales or obtaining loans and grants from various financial institutions where possible. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

## **Item 2. Properties: Mining Properties**

The significant mining properties in which Commerce Group Corp. or the Joint Venture has an interest are summarized below. All of the properties are located in the Republic of El Salvador, Central America.

### **1. San Sebastian Gold Mine**

Property Description	San Sebastian Gold Mine located two and one-half miles northwest of the city of Santa Rosa de Lima and the Pan American Highway.
Nature of Interest	Mineral concession consisting of 100% ownership of the precious metals extracted from this mine. Environmental and exploration permits have been revoked, but legal challenge is pending.
Date Interest was Acquired	1968
Cost of Interest	5% of the gross precious metal proceeds or \$343 a month whichever is higher.
Amount of Funds to Make Property Operational	This is dependent on the scale of production that management decides to perform. The amount of investment could be from \$5 million to \$100 million.
Date Mine will be Operational	No estimate at this time.

### **2. Modesto Mine**

Property Description	Modesto Mine located near the city of Paisnal and about 19 miles north of San Salvador, the capital city.
Nature of Interest	Land ownership through the Company's late Chairman.
Date Interest was Acquired	September 1993
Cost of Interest	No cost for interest.
Amount of Funds to Make Property Operational	Not applicable.
Date Mine will be Operational	Not applicable.

### **3. San Cristobal Mill and Plant**



Property Description	San Cristobal Mill and Plant located on the Pan American Highway west of the city of El Divisadero.
Nature of Interest	Mill and Plant owned by Joint Venture. The real estate is owned by an agency of the Government of El Salvador. Environmental permit has been revoked, but legal challenge is pending.
Date Interest was Acquired	Equipment was acquired on February 23, 1993 and was liquidated during the fiscal year ended March 31, 2010; lease was acquired on November 12, 1993 and terminated in October 2009.
Cost of Interest	Equipment purchased and extensive retrofitting was performed. The cost of the investment through March 31, 2010, including the crushing system located at the San Sebastian Gold Mine, is \$7,163,817.
Amount of Funds to Make Property Operational	Not applicable.
Date Plant will be Operational	Curbed production commenced March 1995; operations suspended on December 31, 1999. Since the Company currently has no permit to operate the plant, it liquidated its equipment during the fiscal year ended March 31, 2010 and terminated its lease in October 2009.

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#### **4. New San Sebastian Exploration License**

Property Description	New San Sebastian Exploration License consisting of 41 square kilometers.
Nature of Interest	Exploration license issued by the Government of El Salvador, which has been revoked, but is the subject of legal proceedings.
Date Interest was Acquired	February 2003
Cost of Interest	Undetermined until negotiated with the surface rights' owners.
Amount of Funds to Make Property Operational	Undetermined until preliminary exploration at an estimated cost of \$2 million is completed.
Date Mine will be Operational	No estimate at this time.

#### **5. Nueva Esparta Exploration License**

Property Description	Nueva Esparta Exploration License consisting of 45 square kilometers.
Nature of Interest	Exploration license issued by the Government of El Salvador, which has been revoked, but is the subject of legal proceedings.
Date Interest was Acquired	May 2004
Cost of Interest	Undetermined until negotiated with the surface rights' owners.
Amount of Funds to Make Property Operational	Undetermined until preliminary exploration at an estimated cost of \$2 million is completed.
Date Mine will be Operational	No estimate at this time.



## **The San Sebastian Gold Mine**

### ***General Location and Accessibility***

The SSGM is situated on a mountainous tract of land owned by Misanse in approximately 1,470 acres of explored and unexplored mining prospects. The SSGM is located approximately three miles off of the Pan American Highway, northwest of the city of Santa Rosa de Lima in the Department of La Union, El Salvador. The tract is typical of the numerous volcanic mountains of the coastal range of southeastern El Salvador. The topography is mountainous with elevations ranging from 300 to 1,500 feet above sea level. The mountain slopes are steep, the gulches are well defined, and the drainage is excellent.

There is good roadway access to the SSGM site. The Pan American Highway is a four lane road and runs from the city of San Salvador to the Honduran border. The city of Santa Rosa de Lima (approximately three miles from the SSGM) is one of the larger cities in the Eastern Zone. The SSGM is approximately 30 miles from the city of San Miguel, which is El Salvador's third largest city, and approximately 108 miles southeast of El Salvador's capital city, San Salvador. SSGM is also approximately 26 miles from the city of La Union which has port and railroad facilities. Major United States' commercial airlines provide daily scheduled flights to the Comalapa Airport which is located on the outskirts of the city of San Salvador.

The Company does not have a final feasibility study completed within the past five years, therefore, a determination that the property contains valid reserve estimates is not possible at this time. The Company plans to develop reserves from mineralized material present at the SSGM.

At the turn of the twentieth century, the SSGM was rated as one of the richest gold mines in the world. The United Nations' 1969 Mineral Survey Report states that "unquestionably the San Sebastian deposit was the jewel of the El Salvador mining industry and one of the most prolific gold mines in Central America."

The Company estimates that at the SSGM it has 14.4 million tons of virgin mineralized material, including the dump waste material. The dump material and stope fill at the SSGM are the by-products of past mining operations. The dump material was mined in the past in the search for higher grades of gold ore and piled to the side of past excavations as it was considered at that time to be too low of a grade of ore to process economically; however, it was reserved for future processing when the price of gold is at a level to process it profitably. The stope fill that was available was in the past (1900 era) considered to be too low of a grade of mineralized material to process economically, therefore it was primarily used to fill the voids in the underground workings to accommodate the extraction of the higher grade of gold mineralized material in the past SSGM mining activities.

### ***Misanse Mining Lease***

The Company (previously through the Joint Venture) leases the SSGM from Mineral San Sebastian, S.A. de C.V. ("Misanse"), an El Salvadoran corporation. The Company owns 52% of the total of Misanse's issued and outstanding shares. About 100 El Salvador, Central American and United States' citizens own the balance of the shares. (Reference is made to Item 8. Financial Statements and Supplementary Data, Note 7, for related party interests.)

### ***SSGM Mining Lease***

On January 14, 2003, the Company entered into an amended and renewed lease agreement with Mineral San Sebastian Sociedad Anomina de Capital Variable (Misanse) pursuant to the approval of the Misanse shareholders and directors at a shareholders' meeting and thereafter at a directors' meeting both held on January 12, 2003. The renewed lease is for a period to coincide with the term of its Renewed SSGM concession, which it received on August 29, 2003 from the DHM. It was automatically amended on May 20, 2004 to coincide with the extension of the term of the Renewed SSGM Exploitation Concession from 20 to 30 years. The lease is automatically extendible for one or more equal periods. The Company will pay to Misanse for the rental of this real estate the sum of five percent of the sales of the gold and silver produced from this real estate, however, the payment will not be less than \$343.00 per month. The Company has the right to assign this lease without prior notice or permission from Misanse. This lease is pledged as collateral for loans made to related parties (Item 8. Financial Statements and Supplementary Data, Note 7).

### ***Misanse Mineral Concession-Government of El Salvador***

In El Salvador, the rights to minerals below the sub-surface are vested with the government. The government through concessions grants mineral rights. Reference is made to the exploration and exploitation maps included in this report.

On July 23, 1987, the Government of El Salvador delivered and granted to Misanse, possession of the mining concession. At that time this provided the right to extract minerals and export gold and silver for a term of 25 years (plus a 25-year renewal option) beginning on the first day of production from the real estate which encompasses the SSGM owned by Misanse. Misanse assigned this concession to the Joint Venture.

Effective February 1996, the Government of El Salvador passed a law which required mining companies to pay to it three percent of its gross gold sale receipts and an additional one percent is to be paid to the El Salvador municipality which has jurisdiction of the mine site. As of July 2001, a series of revisions to the El Salvador Mining Law were made. A principal change is that the fee payable to the GOES has been reduced to two percent of the gross gold and silver receipts.

***Renewed San Sebastian Gold Mine Exploitation Concession under El Salvador Agreement Number 591 dated May 20, 2004 and delivered on June 4, 2004 (Renewed SSGM) - approximately 1.2306 square kilometers (304 acres) located in the Department of La Union, El Salvador, Central America***

On September 6, 2002, at a meeting held with the El Salvadoran Minister of Economy and the Department of Hydrocarbons and Mines (DHM), it was agreed to submit an application for the Renewed SSGM concession for a 30-year term and to simultaneously cancel the concession obtained on July 23, 1987. On September 26, 2002, the Company filed this application. On February 28, 2003 (received March 3, 2003) the DHM admitted to the receipt of the application and the Company proceeded to file public notices as required by Article 40 of the El Salvadoran Mining Law and its Reform (MLIR). On April 16, 2003, the Company's El Salvadoran legal counsel filed with the DHM notice that it believed that it complied with the requirements of Article 40, and that there were no objections; and requested that the DHM make its inspection as required by MLIR Article 42. An inspection by the DHM was made. The Company then provided a bond which was required by the DHM to protect third parties against any damage caused from the mining operations, and it simultaneously paid the annual surface tax. On August 29, 2003 the Office of the Ministry of Economy formally presented the Company with a twenty-year Renewed SSGM concession which was dated August 18, 2003. On May 20, 2004 (delivered June 4, 2004) the Government of El Salvador under this Agreement Number 591 extended the exploitation concession for a period of thirty (30) years. This Renewed SSGM concession replaces the collateral that the same parties held with the previous concession.

On or about September 13, 2006, the El Salvador Ministry of the Environment delivered to Commerce's El Salvadoran legal counsel its revocation of the environmental permits issued for the SSGM and SCMP. The Company is contesting these actions.

***New San Sebastian Exploration License under El Salvador Resolution Number 27 - approximately 40.7694 square kilometers (10,070 acres) located in the Departments of La Union and Morazan, El Salvador, Central America***

On October 20, 2002, the Company applied to the Government of El Salvador through the DHM for the New San Sebastian Exploration License, which covers an area of 41 square kilometers and includes approximately 1.2306 square kilometers of the Renewed SSGM concession. The New San Sebastian Exploration License area is in the jurisdiction of the City of Santa Rosa de Lima in the Department of La Union, Republic of El Salvador, Central America. On February 24, 2003, the DHM issued the New San Sebastian Exploration License for a period of four years starting from the date of December 27, 2003, following the notification of this resolution which was received on March 3, 2003. The New San Sebastian Exploration License may be extended for two two-year periods, or for a total of eight years. This license is in the process of being renewed for a period of four years.

Besides the San Sebastian Gold Mine, the following three other formerly operative gold and silver mines are included in the New San Sebastian Exploration License area: the La Lola Mine, the Tabanco Mine, and the Santa Lucia Mine.

Historical data reflects the following:

A French company operated the La Lola Mine in 1920; they developed two quartz veins, which were named La Lola and Buena Vista. From 1950 through 1953, Mr. Amadeo Tinetti produced 1,850 ounces of gold and 66,000 ounces of silver.

The Tabanco Mine is south of the La Lola Mine. Records evidence and local citizens confirm that several levels of mining occurred. Isolated rich ore shoots reported to contain sulfides and silver chloride were encountered. The oxidized sulfide ore was mined from a width of three to six feet with a grade of 0.50 ounces per ton of gold and five ounces of silver. Records reflect that the Herrera family produced gold and silver beginning in the year 1780.

In the Tepeyac vein very high-grade ore in one to two foot widths was encountered. A United Nation's team performed sampling and reported that in a sulfide bearing zone they found 0.31 ounces of gold and 4.52 ounces of silver in a 4.9 foot wide vein. The footwall host rock assayed at 0.22 ounces of gold and 41.29 ounces of silver. This footwall rock area location was not specifically identified, but the result lends strength to the recommendation that in any further sampling or mapping of veins in the epithermal environment, close attention will be directed to the wall rock.

The third mine in this exploration area is the Santa Lucia Mine in which Mr. Humberto Perla developed a 100 meter wide underground vein. This vein is the west continuation of the Granadilla and the Ano Nuevo veins located about two miles west of the SSGM property.

In October 2008 the Directorate of Mines notified the Company that it was not honoring the Company's previous request for an extension of the exploration permits at the San Sebastian and Nueva Esparta areas. The Company is contesting these actions.

***Nueva Esparta Exploration License (Nueva Esparta) Resolution Number 271 - 45 square kilometers (11,115 acres) located in the Departments of La Union and Morazan, El Salvador, Central America***

On or about October 20, 2002, the Company filed an application with the Government of El Salvador through the DHM for the Nueva Esparta, which consists of 45 square kilometers north and adjacent to the New San Sebastian Exploration License area. This rectangular area is in the Departments of La Union (east) and Morazan (west) and in the jurisdiction of the City of Santa Rosa de Lima, El Salvador, Central America. On May 25, 2004 (received June 4, 2004) the Government of El Salvador under Resolution Number 271 issued the exploration license for a period of four years with a right to request an additional four year extension. An important observation is that these mines form a belt of mineralization following a fault line from the SSGM to the Montemayor Mine for a distance of approximately five miles. Included in the Nueva Esparta are eight other formerly-operated gold and silver mines known as: the Grande Mine, the Las Pinas Mine, the Oro Mine, the Montemayor Mine, the Banadero Mine, the Carrizal Mine, the La Joya Mine and the Copetillo Mine. Historical data reflects the following:

The Montemayor Mine has records that show that an English company commenced production of precious metals sometime about 1860. A report prepared by Mr. Fleury in 1878 stated that the area assayed approximately 48 ounces of silver and 0.85 ounces of gold per ton. Six underground workings were developed, but no records are available. A United Nation's report reflects a possible grade of twelve ounces of silver and 0.29 ounces of gold from a section of the Montemayor vein stope. The Montañita, Tempique, Guarumo, Santa Gertrudis and El Indio vein findings support expanded exploration. The Company performed preliminary exploration in the Montemayor Mine area from 1995 through 1997. Its findings from the ore samples were very positive and encouraged additional exploration. Exploration will consist of locating workable ore within the known structures through mapping and sampling of vein outcrops and reopening, mapping and sampling of underground work.

The El Banadero Mine is located near the Montemayor Mine. When in production, most of the mineralized material processed at the Montemayor mill came from this area and the quality of the precious metals appeared to have the highest values. The veins identified in the area are the Saravia, Borbollon, Caraguito 1 to 3, Eulalio and the Misericordia.

At the La Joya Mine the Company, during previous exploration, discovered three parallel wide quartz veins averaging in width from six feet to 27 feet running northwest by southeast dipping at 42 degrees southwest. More exploration will be concentrated in this tract.

El Jimenito and Santa Teresa are two wide veins that the Company found at the Carrizal Mine. They are 1,920 to 2,560 feet apart. The local residents recollect that free gold was found in the Santa Teresa Vein Adit. This mine is located between the La Joya and Copetillo Mines.

One vein was discovered at the Copetillo Mine in an underground adit. It was developed into two sublevels connected to the south with one 100-foot shaft. Residents recall seeing free gold in the Canton Copetillo.

The Las Piñas Mine is located in the Canton Las Cañas and was in operation in 1935. It was developed for a five-year, 100-ton-per-day mill and plant. Records show that the average grade of silver was 5.10 ounces per ton and that the grade of gold averaged 0.06 ounces per ton.

The La Joya Mine is located in the Canton La Joya. Records relating to activities were not preserved. While exploring the region, the Company found three parallel wide quartz veins ranging from six to 25 feet running northwest to southeast for a distance of over one mile. The grass roots exploration suggests that this is an area with great ore potential.

At this time there is no available information about the Oro Mine. It is a short distance south of the Montemayor Mine. This should be a good exploration target.

In October 2008 the Directorate of Mines notified the Company that it was not honoring the Company's previous request for an extension of the exploration permits at the San Sebastian and Nueva Esparta areas. The Company is contesting these actions.

### ***SSGM Current Status***

The Company's main objective and plan has been to operate a moderate tonnage, low-grade, open-pit, heap-leaching operation to mine gold on its SSGM site. Since the death of Commerce's long-time Chairman Edward L. Machulak on October 21, 2007, the Company has been directing most of its efforts toward finding a compatible acquisition, merger, or other business arrangement. At the present time, the Company cannot proceed with its plans because the government of El Salvador has revoked the necessary permits.

### ***SSGM Ownership of the Property***

Misanse, a Salvadoran corporation, owns the San Sebastian Gold Mine real estate consisting of approximately 1,470 acres. The Company owns 52% of Misanse common shares that are issued and outstanding.



## **Modesto Mine**

### ***Modesto Mine Location***

The Modesto Mine is located due north of the town of El Paisnal, approximately 19 miles north of the capital city, San Salvador, in the Republic of El Salvador, Central America.

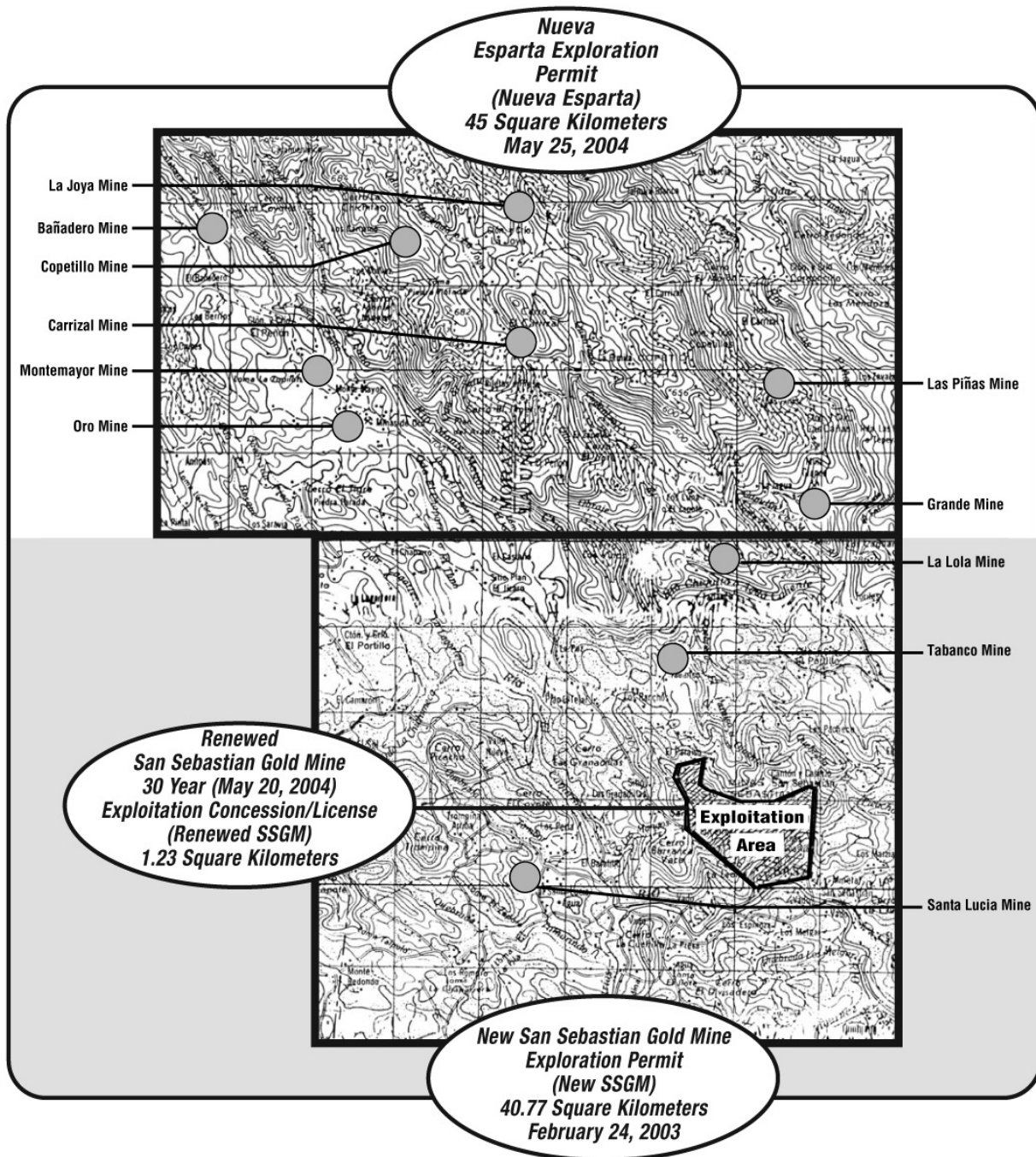
### ***Modesto Mine Present Status***

The Joint Venture suspended exploration activities at this site in July 1997 when the Government of El Salvador awarded the concession of the property to another mining company. At the present time, the Government of El Salvador has suspended all mining in El Salvador. If the policies of the Government of El Salvador change, the Company believes that it will be in a good position to explore and develop this mining property because the Company's late Chairman owns the title to the property.

## **Montemayor Mine ("Montemayor")**

The Joint Venture has obtained permission from a number of property owners to enter their property for the purpose of exploring, exploiting and developing the property and then, if feasible, to mine and extract minerals from this property. The Company believes that this real estate contains the "heart" of the mine. Montemayor is located about six miles northwest of the SSGM and about two and one-half miles east of the city of San Francisco Gotera in the Department of Morazan, Republic of El Salvador. Historical records evidence that the potential for the Montemayor to become an exploration and development silver-gold producing prospect is excellent. The Company will not be able to develop this mine unless it obtain required permits from the Government of El Salvador.

# Exploration and Exploitation Maps



## **San Cristobal Mill and Plant (“SCMP”) Recovery and Processing System**

### **SCMP Location**

SCMP was located near the city of El Divisadero (bordering the Pan American Highway), and was approximately 13 miles east of the city of San Miguel, the third largest city in the Republic of El Salvador, Central America.

### **SCMP Lease Agreement**

Although the Joint Venture owned the mill, plant and related equipment, it did not own the land and certain buildings.

On November 12, 1993, the Joint Venture entered into an agreement with Corporacion Salvadorena de Inversiones (“Corsain”), an El Salvadoran governmental agency, to lease for a period of ten years (expiring November 12, 2003), approximately 166 acres of land and buildings on which its gold processing mill, plant and related equipment (the SCMP) was located, and which was approximately 15 miles west of the SSGM site. The basic annual lease payment was U.S. \$11,500, payable annually in advance, unless otherwise amended, and subject to an annual increase based on the annual United States’ inflation rate. As agreed, a security deposit of U.S. \$11,500 was paid on the same date and this deposit was subject to increases based on any United States’ inflationary rate adjustments.

On April 26, 2004, a three-year lease, which includes an automatic additional three-year extension subject to Corsain’s review, was executed by and between Corsain and the Company. This lease was retroactive to November 12, 2003 and the monthly lease payments were \$1,418.51 plus the El Salvadoran added value tax. The lease was subject to an annual increase based on the U.S. annual inflationary rate adjustments. The SCMP was strategically located to process mineralized material from other mining projects.

On March 25, 2008 a nineteen-month lease retroactive to November 12, 2006 was executed by and between Corsain and the Company. The total lease payment for this nineteen-month period was \$18,608.21. Reference is made to Exhibit 10.16 of the Company’s Form 10-K for its fiscal year ended March 31, 2008, for a copy of this lease. The lease was renewed on June 12, 2008 for a six-month period to expire on December 11, 2008, with an option to subsequently renew it for additional three-month periods. The Company chose to exercise this option and renewed the lease until it was terminated in October 2009.

### **SCMP Mill and Plant Process Description**

#### **Current Status**

The SCMP (a precious metal cyanidation carbon-in-leach system) had a capacity of processing up to 200 tons of virgin mineralized material per day. The following units of operation were required: crushing, grinding, thickening, agitated leaching and recovery of precious metals via a carbon-in-leach (CIL) system. The Company had planned to overhaul the SCMP to give it a production capacity of up to 500 tons per day.

On or about September 13, 2006, the El Salvador Ministry of the Environment delivered to Commerce's El Salvadoran legal counsel its revocation of the environmental permits issued for the SSGM and SCMP. This Company's legal counsel on December 6, 2006, filed with the El Salvadoran Court of Administrative Litigation of the Supreme Court of Justice two complaints relating to this matter. (See the Company's discussion in the section entitled "Environmental Matters.") These legal proceedings are pending.

Because of the length of time that the permit status of the SCMP has gone unresolved, the Company terminated its lease in October 2009, liquidated its equipment and is now in the process of liquidating its inventory.

### ***Environmental Matters***

Reference is made to San Sebastian Gold Mine "Environmental Matters." The same information applies. On March 15, 2006, the Office of the El Salvadoran Ministry of Environment and Natural Resources (MARN) issued an environmental permit (Resolution 3026-003-2006) relative to the Renewed SSGM Exploitation Concession and the San Cristobal Mill and Plant. On or about September 13, 2006, MARN revoked both permits. For more details, reference is made to "Environmental Matters" and to Item 3. Litigation.

### **The Joint Venture Laboratory**

The Joint Venture has a laboratory located on real estate owned by the Company near the SSGM site. A total of 78,441 samples of exploration fire assays were logged through 2004. This total does not include the assays that were performed for production purposes. Assay work has not been performed at the laboratories since 2004.

## **Corporate Headquarters**

The Company leases approximately 4,032 square feet of office space for its corporate headquarters on the second floor of the building known as the General Lumber Building located at 6001 North 91st Street, Milwaukee, Wisconsin, at a monthly rental charge of \$2,789 on a month-to-month basis. The lessor is General Lumber & Supply Co., Inc. (“General Lumber”), a Wisconsin corporation. The Company’s late President, Edward L. Machulak, owns 55% of the common stock of General Lumber. Edward L. Machulak disclaims any interest in the balance of General Lumber common stock which is owned by relatives, his wife, and a trust formed for the benefit of his children. In addition, the Company shares proportionately any increase in real property taxes and any increase in general fire and extended coverage insurance on the property. In lieu of cash payment, the Lessor has agreed to apply the monthly rental payments owed to the secured open-ended, on-demand promissory note(s) due to it.

## **Item 3. Legal Proceedings**

There is no pending litigation in the United States. However, in the Republic of El Salvador, Central America, the Company’s El Salvadoran legal counsel on December 6, 2006, filed a complaint with the El Salvadoran Supreme Court Administrative Division claiming that the El Salvadoran Office of the Ministry of Environment and Natural Resources, (MARN) has revoked its El Salvadoran environmental permits for mining exploitation, without any prior notice, without a right to a hearing and without the right of due process, based on misguided assertions, and contrary to El Salvadoran law. In addition, the Company’s legal counsel stated that there is a lack of legal foundation for the sanctions and excess authority exercised by MARN. For more details, reference is made to “Environmental Matters.” Also, in October 2008 the Directorate of Mines notified the Company that it was not honoring the Company's previous request for an extension of the exploration permits at the San Sebastian and Nueva Esparta areas. The Company believes this notice is unwarranted and an appeal is pending.

On March 17, 2009, the Company’s attorneys delivered a Notice of Intent to commence international arbitration proceedings against the Government of El Salvador under the Central America Free Trade Agreement-Dominican Republic (CAFTA-DR). The Company contends that the Government of El Salvador frustrated its effort to develop its mining interests in the country of El Salvador in violation of CAFTA-DR. The parties had 90 days to resolve their dispute amicably, after which the Company had the right to commence arbitration proceedings against the Government of El Salvador to claim significant monetary damages. Since the Company received no response to the Notice of Intent, on July 2, 2009 it submitted to the International Centre for Settlement of Investment Disputes (ICSID) a notice of arbitration to commence international arbitration proceedings against the Government of El Salvador under CAFTA-DR. The request for arbitration was registered with the ICSID on August 21, 2009. On July 1, 2010 the Company received notice from the ICSID that the three nominations for arbitrators in the Company’s action under CAFTA-DR have all accepted their appointments. As a result, the Arbitral Tribunal was therefore deemed under ICSID Arbitration Rule 6 to have been constituted.

## **Item 4. Submission of Matters to a Vote of Security Holders**

No matters were brought to a vote of security holders in the fourth quarter ended March 31, 2010.

## PART II

### **Item 5. Market for the Company's Common Stock and Related Stockholders' Matters**

#### **(a) Principal Market and Common Stock Price**

The Company is listed on the Over the Counter Bulletin Board (OTCBB) under the trade symbol CGCO.OB and on the Pink OTC Markets (OTCQB) under the trade symbol CGCO. Since October 21, 2005 its shares were traded on the Berlin-Bremen Stock Exchange under the trade symbol C9G. Prior to this time, the common shares were traded since 1968 on the Over the Counter, American Stock Exchange, Boston Stock Exchange and on the Nasdaq Smallcap.

The following table reflects the range of high and low trade prices of the common shares as reported by the OTCBB for the period ended March 31, 2010 and 2009, as well as the highest and lowest trade price during each quarter through the period ended March 31, 2010. The closing price on April 22, 2010 was \$.07 a share.

For the period ended	March 31, 2010		March 31, 2009	
	<u>High</u>	<u>Low</u>	<u>High</u>	<u>Low</u>
First quarter ending June 30	\$0.18	\$0.03	\$0.32	\$0.12
Second quarter ending September 30	\$0.16	\$0.03	\$0.35	\$0.05
Third quarter ending December 31	\$0.11	\$0.05	\$0.10	\$0.01
Fourth quarter ending March 31	\$0.08	\$0.05	\$0.10	\$0.03

#### **(b) Approximate Number of Holders of Common Shares**

As of March 31, 2010, the Company believes that approximately 3,100 shareholders held the common shares; it is estimated that over 95% are United States' residents.

As of March 31, 2010, the Company's transfer agent and registrar certified that there were 1,580 shareholders of record. The number of shareholders of the Company who beneficially own shares in nominee or "street name" or through similar arrangements is estimated by the Company to be approximately 1,500.

As of March 31, 2010, there were issued and outstanding: (a) 30,750,869 shares of common stock; (b) no stock options were issued or outstanding to purchase common stock; and (c) no preferred shares or stock options are issued and outstanding.

#### **(c) Equity Compensation Plans**

None.

#### **(d) Dividend History**

Subject to the rights of holders of any outstanding series of preferred shares to receive preferential dividends, and to other applicable restrictions and limitations, holders of shares of common shares are entitled to receive dividends if and when declared by the Board of Directors out of funds legally available. No dividends were payable during the last fiscal year ended March 31, 2010. The declaration of future dividends will be determined by the Board of Directors in light of the Company's earnings, cash requirements and other relevant considerations.

**(e) Issue of Securities to Directors and Officers**

No shares were issued to the Company's Directors or Officers during the fiscal year ended March 31, 2010.

**Item 6. Selected Financial Data**

The following table presents certain selected financial information regarding the Company's financial condition and results over the past five years:

	Year Ended March 31				
	<u>2010</u>	<u>2009</u>	<u>2008</u>	<u>2007</u> <u>(Restated)</u>	<u>2006</u> <u>(Restated)</u>
<b>Income statement data</b>					
Total revenue	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Income (loss) from continuing operations	\$ <u>(4,877,960)</u>	\$ <u>(30,016,783)</u>	\$ <u>(3,052,198)</u>	\$ <u>(2,616,821)</u>	\$ <u>(2,209,424)</u>
Income (loss) from continuing operations per share:					
Basic and diluted	\$ <u>(0.16)</u>	\$ <u>(0.98)</u>	\$ <u>(.011)</u>	\$ <u>(.010)</u>	\$ <u>(.09)</u>
Weighted average shares - basic and diluted	<u>30,750,869</u>	<u>30,723,711</u>	<u>28,401,086</u>	<u>25,457,052</u>	<u>23,834,988</u>
Cash dividends per common share	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
<b>Balance sheet data</b>					
Working capital (deficit) *1	\$ <u>(486,600)</u>	\$ <u>200,975</u>	\$ <u>545,618</u>	\$ <u>605,787</u>	\$ <u>798,753</u>
Total assets	\$ <u>314,711</u>	\$ <u>689,595</u>	\$ <u>26,485,002</u>	\$ <u>25,889,065</u>	\$ <u>25,236,806</u>
Short-term obligations *1	\$ <u>33,803,586</u>	\$ <u>29,224,187</u>	\$ <u>25,006,311</u>	\$ <u>21,790,176</u>	\$ <u>18,851,934</u>
Long-term obligations	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>	\$ <u>0</u>
Shareholders' equity (deficit)	\$ <u>(33,421,552)</u>	\$ <u>(28,534,592)</u>	\$ <u>1,478,691</u>	\$ <u>4,098,889</u>	\$ <u>6,384,872</u>

\*1 Although the majority of the short-term obligations are due on demand, some of these obligations have the attributes of being long-term as most of the debt is due to most of the related parties who have not called for a payment except for nominal amounts of their short-term loans during the past five or more years.

## **Item 7. Management's Discussion and Analysis of Financial Condition and Results of Operations**

The following discussion provides information on the results of operations for each of the three years ended March 31, 2010, 2009 and 2008 and the financial condition, liquidity and capital resources for March 31, 2010 and 2009. The financial statements of the Company and the notes thereto contain detailed information that should be referred to in conjunction with this discussion.

### **Overview**

Today, Commerce is a company with great potential for developing gold and silver ore reserves. In the past the Company has been in the precious metals exploration business with all of its mining interests located in the Republic of El Salvador, Central America. The Company's objectives and goals are to increase shareholder value by finding a compatible acquisition, merger or other business arrangement by which litigation relating to suspension of the Company's permits will be favorably resolved and gold and silver ore reserves within the concession/license areas granted to the Company by the Government of El Salvador (GOES) will be identified, developed and processed. Substantial capital expenditures are required to find, develop and process gold ore. In the past, geologists and engineers have advised the Company that they believe that it has potentially significant precious metal reserves, which can be identified and developed by continuous and expanded exploration. The strategies to accomplish these goals include, whether by Commerce or through an arrangement with another respected company, resolving its permit issues with the El Salvadoran Government, commencement of production of gold and silver when adequate funding is available, locating and identifying gold and silver ore reserves by a more aggressive exploration program, continuing the good relationship established over the past 40 years with its employees, earning profits and respecting the citizens surrounding its mining properties.

At the present time, the Government of El Salvador has for all intents and purposes, prohibited precious metal mining in the Republic of El Salvador. The Company is unable to predict if and when this policy will change. This has hampered not only mining activities, but also, the Company's ability to find a suitable investment partner. On March 7, 2008, Commerce entered into a tentative arrangement with another company to perform exploration in El Salvador. However, that company has decided not to continue its efforts to enter into a transaction relating to Commerce's San Sebastian Gold Mine in the Republic of El Salvador. The Company has invoked the legal process to challenge the actions taken by the Government of El Salvador against the Company.

If the Company succeeds in its legal challenges or the Government of El Salvador changes its policy, and the Company obtains the funds to do so, the Company intends to resume its activities in the Republic of El Salvador which are now suspended. Primarily, the Company is determined to obtain the permissions needed from El Salvador and to enter into a business arrangement through which gold will be produced at an open-pit, heap-leach operation constructed on its San Sebastian Gold Mine site which is located approximately two and one half miles off of the Pan American highway northwest of the City of Santa Rosa de Lima in the Department of La Union, El Salvador.

The Company does not have a final feasibility study completed within the past five years, therefore, a determination that the property contains valid reserve estimates is not possible at this time.

In the past, the Company had the following exploitation/exploration licenses, and is pursuing legal remedies in an effort to reinstate the licenses:



Exploitation/Exploration Concessions/Licenses	Department or Location	Acres		
		Exploitation	Exploration	Total
Renewed San Sebastian Gold Mine	La Union	304	1,394	1,698
New San Sebastian Gold Mine	La Union/Morazan		8,372	8,372
Nueva Esparta	La Union/Morazan	—	11,115	11,115
Total Acreage	304	20,881	21,185	

The San Sebastian Gold Mine has four contiguous target areas in the 10,070 acre area (1,573 square miles): the San Sebastian Gold Mine; the Cosiguina Hill; the San Juan Hill; and the El Salazar area. Most of the exploration conducted in the past was on the San Sebastian Gold Mine, the Cosiguina Hill and the El Salazar area. Very little exploration has been performed on the San Juan Hill. A large part of the San Sebastian Exploration License area remains unexplored. Also included in the New San Sebastian Exploration License area were four formerly-operated mines. They are: the San Sebastian Gold Mine; the La Lola Mine; the Tabanco Mine; and the Santa Lucia Mine.

The Nueva Esparta Exploration License area consisted of 11,115 acres (17.36 square miles) of land to explore. Included in the exploration area were eight formerly-operated gold and silver mines: the Grande Mine; the Las Pinas Mine; the Oro Mine; the Montemayor Mine; the Banadero Mine; the Carrizal Mine, the La Joya Mine and the Copetillo Mine. At the La Joya Mine and Montemayor Mine, the Company discovered a surface vein that is over one and one half miles in length and about five to over 30 feet in width. This area is targeted to be one of the first areas to be drilled.

#### **Potential Reserves and Mineralized Material**

The Company does not have a final feasibility study completed within the past five years, therefore, a determination that the property contains reserves is not possible at this time.

The Company does believe that the property contains substantial quantities of mineralized material containing gold and silver. There are a number of uncertainties inherent in estimating quantities of mineralized material, however, including many factors beyond the Company's control. Mineralized material estimates and estimates of gold content are based upon engineering evaluations of assay values derived from samplings of drill-holes and other openings. Additionally, declines in the market price of gold may render certain mineralized materials containing relatively lower grades of mineralization uneconomic to mine. Further, availability of permits, changes in operating and capital costs, and other factors could materially and adversely affect estimates of commercially useful mineralized material.

It is expected that the carbon-in-leach process will be used to produce gold at the SSGM. As the solution percolates through the heap, gold is dissolved from the mineralized material into solution. This solution is collected and processed with activated carbon, which precipitates the gold out of solution and onto the carbon.

Through the subsequent processes of acid washing and pressure stripping, the gold is returned to a solution in a more highly concentrated state. This concentrated solution of gold is then processed in an electrowinning circuit, which re-precipitates the gold onto cathodes for melting into gold doré bars.

When the Company was in production certain estimates regarding this overall process were required for inventory accounting and reporting of gold estimates, the most significant of which were the amount and timing of gold to be recovered. Although the Company could calculate with reasonable certainty the tonnage and grades of gold mineralized material placed under the mill process system and laboratory analysis, the recovery and timing factors are influenced by the grade of the mineralized material under leach and the particular mineralogy of a deposit being mined. The Company's estimates were based on laboratory leaching models, which approximated the recovery from gold mineralized material under leach. From this data the Company estimated the amount of gold that could be recovered and the time it would take for recovery. If and when the Company is in production, the Company will continually monitor the actual monthly and cumulative recovery from the carbon-in-leach process as a check against the laboratory models.

The Company has no revenues because it is not in production and it requires funds to purchase the necessary equipment, inventory and working capital to commence processing mineralized material.

The Company believes that at least \$30 million (net) in funding is needed for the expansion of exploration opportunities and to resume production of gold and silver from its San Sebastian Gold Mine located near the City of Santa Rosa de Lima, Republic of El Salvador, Central America. The Company expects that the \$30 million would be used as follows:

To set up an open-pit, heap-leach operation at the San Sebastian Gold Mine site	U.S. \$19 million net
For preliminary exploration for a part or for all of the 10,000 acres of the New San Sebastian Exploration License area consisting of three former mine operations	U.S. \$2 million net
For preliminary exploration for a part or for all of the 11,000 acres of the Nueva Esparta Exploration License area consisting of eight former mine operations	U.S. \$2 million net
Contingent fund availability, inflation costs and for accelerating the above projects	<u>U.S. \$7 million net</u>
Total	U.S. \$30 million net

All of the Company's mining interests are located in the Republic of El Salvador, Central America. The Government of El Salvador (GOES) via the Ministry of Economy's office issued the following three concessions/licenses which have now been revoked or suspended:

1. On or about May 20, 2004, the Renewed San Sebastian Gold Mine Exploitation Concession (Renewed SSGM) was issued by the GOES for a period of 30 years. This gave the Company the right to extract and process mineralized material to produce gold and silver from the San Sebastian Gold Mine site. On or about September 13, 2006, the El Salvador Ministry of the Environment delivered to Commerce's El Salvadoran legal counsel its revocation of the environmental permits issued for the SSGM exploitation concession and the SCMP. This Company's legal counsel on December 6, 2006, filed with the El Salvadoran Court of Administrative Litigation of the Supreme Court of Justice two complaints relating to this matter. (See the Company's discussion in the section entitled "Environmental Matters.") These legal proceedings are pending.
2. On or about February 27, 2003, the GOES granted to the Company the New San Sebastian Exploration License (New San Sebastian Exploration License) consisting of approximately 10,070 acres, which encompass the Renewed SSGM Exploitation Concession. This license gave the right to exploration of the subsurface in this area. In this area there are three formerly operated mines: La Lola Mine, Santa Lucia Mine and Tabanco Mine. In October 2008 the Directorate of Mines notified the Company that it was not honoring the Company's previous request for an extension of the exploration permits at the San Sebastian and Nueva Esparta areas. The Company believes this notice is unwarranted and an appeal is pending.
3. On May 25, 2004 the GOES granted to the Company the Nueva Esparta Exploration License consisting of 11,115 acres of area to explore. This exploration license area abuts the New San Sebastian Exploration License area and it has eight formerly operated gold/silver mines: the Grande Mine, the Las Piñas Mine, the Oro Mine, the Montemayor Mine, the Banadero Mine, the Carrizal Mine, the La Joya Mine and the Copetillo Mine. The Company did exploration work on the Montemayor Mine from 1995 - 1997. In October 2008 the Directorate of Mines notified the Company that it was not honoring the Company's previous request for an extension of the exploration permits at the San Sebastian and Nueva Esparta areas. The Company believes this notice is unwarranted and an appeal is pending.

The Company is a U.S. Wisconsin chartered corporation. Its primary asset is the San Sebastian Gold Mine (SSGM). The SSGM is located in the Republic of El Salvador, Central America and produced over one million ounces of gold during the 1900-1917 period. The Company became involved as an investor and then as a majority owner. Gold and silver were mined from mid-1972 through the first quarter of 1978. Mining ceased due to the civil unrest in El Salvador. A peace pact was entered into in December 1992 conditioned upon meeting the terms and conditions of this peace agreement during a three-year period. Mining of gold and silver commenced on April 1, 1995 and the operations were suspended during the first quarter of 2000 due to the low selling price of gold (lowest price about \$252) at that time and the need to retrofit, restore and expand the San Cristobal Mill and Plant (SCMP).

### **Financing Activities, Liquidity and Capital Resources**

If the Company's permits to conduct mining activity are restored, the Company will need to raise adequate funds from outside sources for this operation; the amount required is dependent on the targeted daily volume of production.

The Company estimates that it will need U.S. \$19 million to start a 2,000 ton-per-day open-pit, heap-leaching operation. Eventually the production capacity would be increased in stages to 6,000 tons per day so that annual production could be 113,000 ounces of gold at the SSGM. The use of the \$19,000,000 proceeds is expected to be as follows: \$8,745,000 for mining equipment and the completion of erecting a crushing system; \$4,010,560 for the processing equipment and site and infrastructure costs; and a sum of \$6,244,440 is to be used for working capital. The once depressed price of gold has substantially increased during the last two years. The Company's low common share market price is a major deterrent in raising cash for the Company's programs.

The Company continues to be cognizant of its cash liquidity problem until it is able to produce adequate profits from its SSGM gold production. It will attempt to obtain sufficient funds to assist the Joint Venture in placing the SSGM into production. In order to continue obtaining funds to conduct the Joint Venture's proposed exploration and exploitation, development, and expansion programs, and the production of gold from the SSGM open-pit, heap-leaching operation, it is necessary for the Company to obtain funds from outside sources. The Company may have to borrow funds by issuing open-ended, secured, on-demand or unsecured promissory notes, by selling its shares to its directors, officers and other interested accredited investors, or by entering into a joint venture, merging, or developing an acceptable form of a business combination with others.

The Company continues to rely on its directors, officers, related parties and others for its funding needs. It believes that the funding needed to proceed with the exploration of the other exploration targets for the purpose of identifying potential gold ore reserves will be greatly enhanced if the price of gold stays at the current or higher level. These exploration programs will involve airborne geophysics, stream chemistry, geological mapping, trenching, drilling, etc. The Joint Venture believes that it may be able to joint venture or enter into other business arrangements to share these exploration costs with other entities.

## Debt

Most of the debt is owed to related parties as follows:

	<u>Related Parties</u>	<u>Others</u>	<u>Total</u>
Accounts payable - Commerce	\$ 72,049	\$ 20	\$ 72,069
Accounts payable - Comseb	250,582	2,927	253,509
Notes payable and accrued interest	27,661,381	377,238	28,038,619
Accruals – salaries	3,895,631	0	3,895,631
Accruals – legal fees	546,233	0	546,233
Accruals – other - Commerce	576,400	196,259	772,659
Accruals – other – Comseb	<u>                    </u>	<u>224,866</u>	<u>224,866</u>
Total	\$33,002,276	\$801,310	\$33,803,586

Although the majority of the short-term obligations are due on demand, most of the obligations have the attributes of being long-term obligations as most of the debt is due to related parties who have not called for payment during the past five or more years.

## Cash Deposits and Surety Bonds

The Company was required to provide cash deposits or surety bonds in connection with obtaining its mining concession and environmental permits.

## El Salvador Ministry of Environment Requirements:

The El Salvador Ministry of Economy exploitation concession for the Renewed San Sebastian Gold Mine Exploitation Concession No. 591 dated May 20, 2004 required a three-year, third-party liability guarantee (bond) which was renewed commencing on February 17, 2006 through February 17, 2009 in the sum of \$42,857.14. It was issued by Seguros del Pacifico, S.A., an El Salvadoran bonding and insurance company.

- a. A bond in an amount of \$771.49 is required in connection with the environmental permit issued on October 15, 2002 under MARN Resolution No. 474-2002 for the San Cristobal Mill and Plant. This bond was originally issued on October 15, 2003 for a period of three years. The environmental permit was revoked without notice, cause, or reason by MARN Resolution No. 3249-779-2006 dated July 5, 2006. The notice was first delivered to the Company on or about September 13, 2006. As a result of this revocation, the bond was returned in 2007.
- b. A bond in an amount of \$14,428.68 is required in connection with the environmental permits issued on October 20, 2002 under MARN Resolution No. 493-2002 for the Renewed San Sebastian Gold Mine Exploitation concession. This permit was renewed on March 15, 2006 for a term of three years and an audit by MARN was made. The environmental permit was revalidated on June 23, 2006. MARN delivered its revocation of the environmental permit, Resolution No. 3026-783-2006 dated July 6, 2006 on or about September 13, 2006. As a result of this revocation, the bond was returned in 2007.

On or about December 6, 2006, the Company's El Salvadoran attorney filed a complaint against the Ministry of Environment with the Honorable Court of Administrative Litigation of the Supreme Court of Justice stating that the Ministry of Environment violated the right of a notice, hearing and due process, that there is a lack of legal foundation for the sanctions, use of excess authority, and contrary to the El Salvadoran law.

### **Results of Operation for the Fiscal Year Ended March 31, 2010 Compared to March 31, 2009**

There are no revenues as the Company has had no gold production in the last year. The Company recorded a net loss of \$4,877,960 or \$.16 per share for its fiscal year ended March 31, 2010. This compares to a net loss of \$30,016,783 or \$.98 per share for the fiscal year ended March 31, 2009. The net loss for the fiscal year ended March 31, 2010 was significantly lower than the net loss for the fiscal year ended March 31, 2009 because there was a significant adjustment to account for impairment in the fiscal year ending March 31, 2009.

There was no current or deferred provision for income taxes during the fiscal period ended March 31, 2010 or 2009. Additionally, even though the Company has an operating tax loss carry forward, the Company has previously recorded a net deferred tax asset due to an assessment of the "more likely than not" realization criteria required by FASB ASC 740-10 (formerly the Statement of Financial Accounting Standards No. 109, Accounting for Taxes).

Since the Company was not in production, inflation did not have a material impact on operations in the fiscal years ended March 31, 2010 or 2009. The Company does not anticipate that inflation will have a material impact on continuing operations during the next fiscal year unless the Company is producing gold and silver.

Based on past experience, the costs for fuel will be a significant operating expense when production commences. It is expected that continued high fuel costs and increased costs of hiring and retaining qualified mining personnel with the required specialized skills to operate and manage a mining operation will have a potential significant impact on continuing operations in the future.

The Company recorded interest expense in the sum of \$4,137,124 during this fiscal period compared to \$3,467,800 for the same period in 2009, and in the past it was eliminated with the interest income earned from the Joint Venture. As stated above, the interest expense is now included in the net loss.

Almost all of the costs and expenses incurred by the Company are allocated and charged to the Joint Venture.

### **Results of Operation for the Fiscal Year Ended March 31, 2009 Compared to March 31, 2008**

There are no revenues as the Company has had no gold production in the last year. The Company recorded a net loss of \$30,016,783 or \$.98 per share for its fiscal year ended March 31, 2009. This compares to a net loss of \$3,052,198 or \$.11 per share for the fiscal year ended March 31, 2008.

For the fiscal year ended March 31, 2009, the Company performed an impairment test over long-lived assets including mining resources and property, plant and equipment. Testing for impairment of long-lived assets requires significant management judgment regarding future cash flows, asset lives, and discount rates. The Company considered a number of factors including the cancellation of its permits by the Government of El Salvador, the fact that there has been no resolution of the Company's legal challenges to this action initiated in El Salvador, the unwillingness of the El Salvadoran Government to engage in any discussions after the Company gave notice of its intent to file for arbitration under CAFTA-DR on March 17, 2009 (and consequently, the need to file for arbitration before the International Centre for Settlement of Investment Disputes (ICSID) on July 2, 2009), and public statements made by members of the Government of El Salvador elected in March 2009.

Given all of these factors and events, the Company determined that its assets have been impaired and the Company has made significant adjustments to account for impairment. A pre-tax charge of \$21,213,950 was recognized in the fourth quarter ending March 31, 2009, fully impairing the mining resource assets. Additionally, a pre-tax charge of \$4,835,353 was recognized in the fourth quarter ending March 31, 2009, related to impairment of plant and equipment. The Company did not impair the plant and equipment for the amount of \$116,324 during the fourth quarter ending March 31, 2009 because it believed that it would be fully recoverable. During the fiscal year ended March 31, 2010, \$40,002 was recovered and the remaining balance of \$76,322 represents the cost of land that management believes is fully recoverable.

There was no current or deferred provision for income taxes during the fiscal period ended March 31, 2009 or 2008. Additionally, even though the Company has an operating tax loss carry forward, the Company has previously recorded a net deferred tax asset due to an assessment of the "more likely than not" realization criteria required by the Statement of Financial Accounting Standards No. 109, Accounting for Taxes.

Since the Company was not in production, inflation did not have a material impact on operations in the fiscal years ended March 31, 2009 or 2008. The Company does not anticipate that inflation will have a material impact on continuing operations during the next fiscal year unless the Company is producing gold and silver.

Based on past experience, the costs for fuel will be a significant operating expense when production commences. It is expected that continued high fuel costs and increased costs of hiring and retaining qualified mining personnel with the required specialized skills to operate and manage a mining operation will have a potential significant impact on continuing operations in the future.

Interest expense in the sum of \$3,467,800 was recorded by the Company during this fiscal period compared to \$2,915,959 for the same period in 2008, and in the past it was eliminated with the interest income earned from the Joint Venture. As stated above, the interest expense is now included in the net loss.

Almost all of the costs and expenses incurred by the Company are allocated and charged to the Joint Venture.

### **Critical Accounting Policies and Estimates**

The ensuing discussion and analysis of financial condition and results of operations are based on the Company's consolidated financial statements, prepared in accordance with accounting principles generally accepted in the United States of America and contained within this report on S.E.C. Form 10-K. Certain amounts included in or affecting the Company's financial statements and related disclosures must be estimated, requiring that certain assumptions be made with respect to values or conditions which cannot be made with certainty at the time the financial statements are prepared. Therefore, the reported amounts of the Company's assets and liabilities, revenues and expenses, and associated disclosures with respect to contingent assets and obligations are necessarily affected by these estimates. The more significant areas requiring the use of management estimates and assumptions relate to mineral reserves that are the basis for future cash flow estimates and units-of-production amortization determination; recoverability and timing of gold production from the heap-leaching process; environmental, reclamation and closure obligations; asset impairments (including estimates of future cash flows); useful lives and residual values of intangible assets; fair value of financial instruments; valuation allowances for deferred tax assets; non monetary transactions; and contingencies and litigation. The Company bases its estimates on historical experience and on various other assumptions that are believed to be reasonable under the circumstances. Actual results may differ from these estimates under different assumptions or conditions.

The Company believes the following significant assumptions and estimates affect its more critical practices and accounting policies used in the preparation of its consolidated financial statements.

A critical accounting policy is one that is important to the portrayal of the Company's financial condition and results, and requires the Company to make difficult subjective and/or complex judgments. Critical accounting policies cover accounting matters that are inherently uncertain because the future resolution of such matters is unknown. The Company believes the following accounting policies are critical policies: environmental liabilities, income taxes and asset retirement obligations.

The preparation of financial statements in conformity with generally accepted accounting principles requires the Company to make estimates and assumptions for the reporting period and as of the financial statement date. These estimates and assumptions affect the reported amounts of assets and liabilities, the disclosure of contingent liabilities and the reported amounts of revenues and expenses. Actual results could differ from those amounts.

The Company reviews, on an as needed basis, its estimates of costs of compliance with environmental laws and the cleanup of various sites, including sites in which governmental agencies have designated the Company as a potentially responsible party. When it is probable that obligations have been incurred and where a minimum cost or a reasonable estimate of the actual costs of compliance or remediation can be determined, the applicable amount is accrued. Actual costs can differ from estimates due to changes in laws and regulations, discovery and analysis of site conditions and changes in technology.

The Company makes certain estimates, which may include various tax planning strategies, in determining taxable income, the timing of deductions and the utilization of tax attributes, which can differ from estimates due to changes in laws and regulations, discovery and analysis of site conditions and changes in technology.

Management is required to make judgments based on historical experience and future expectations on the future abandonment cost, net of salvage value, of its mining properties and equipment. The Company reviews its estimate of the future obligation periodically and will accrue the estimated obligation based on the SFAS No. 143 "Account for Asset Retirement Obligations."

From time to time, the Company will estimate ore reserves, if any, when it is in production. There are a number of uncertainties inherent in estimating quantities of reserves, including many factors beyond the control of the Company. Ore reserve estimates are based upon engineering evaluations of assay values derived from samplings of drill holes and other openings. Additionally, declines in the market price of gold may render certain reserves containing relatively lower grades of mineralization uneconomic to mine. Further, availability of permits, changes in operating and capital costs, and other factors could materially and adversely affect ore reserves. The Company utilizes its ore reserve estimates in determining the unit basis for mine depreciation and closure rates, as well as in evaluating mine asset impairments. Changes in ore reserve estimates could significantly affect these items.

The Company at least annually plans to assess its properties and undeveloped mineral claims and leases, if any, for impairment when events or changes in circumstances indicate that the properties may be impaired. For producing properties and equipment, an impairment is recognized when the estimated future cash flows (undiscounted and without interest) expected to result in the use of the asset are less than the carrying amount of that asset. Measurement of the impairment loss is based on discounted cash flows. Undeveloped mineral claims and leases are measured on a fair value basis. Fair value with respect to such mineral interest, pursuant to Statement of Financial Accounting Standards No. 144, *Accounting for the Impairment or Disposal of Long-Lived Assets*, effective January 1, 2002, would generally be assessed with reference to comparable property sales transaction in the market place. The expected values associated with potential property development are estimated using the traditional net present value analysis of revenues, costs and capital investment cash flow projections discounted at a risk-adjusted rate reflective to the time periods associated with each possible outcome. Assumptions underlying future cash flow estimates are subject to risks and uncertainties. Also, the occurrence of past market transactions does not mean that such comparable amounts would be applicable to the Company's situation. Any differences between significant assumptions and market conditions could have a material effect on the fair value estimate.



The financial statements for the fiscal years ended March 31, 2010, 2009 and prior years reflect and include Commerce Group Corp.'s subsidiaries and the Commerce Group Corp./Sanseb Joint Venture (Joint Venture) on a consolidated basis. Previously, the Company reported the investment in the Joint Venture as advances to the Joint Venture and the Company's advances included the interest earned on these advances in anticipation of the interest being reimbursed. Now these advances are restated and combined with the Company's Consolidated Financial Statements. Although the elimination of interest income reduces the retained earnings, it does not eliminate the interest charged by and earned by the Company which is due and payable to it and which is maintained additionally with a separate accounting. At such time, if ever, as profits from the gold mining operation are distributed, the interest earned on these advances will be paid first to the Company pursuant to an agreement entered into by the joint venture parties.

For the fiscal year ended March 31, 2010, the Company was able to segregate the disbursements to the Joint Venture to identify the category to be charged. Reference is made to Item 8. Financial Statements and Supplementary Data, Note 2, for additional details.

### **Precious Metal Mining Strategy**

The Company processed gold from 1972 through March 1978 at the SSGM site and from March 31, 1995 through December 31, 1999 at its SCMP. Its SCMP consisted primarily of used equipment that had been installed at its leased site by a previous mining company. The used processing equipment was acquired by the Joint Venture on February 23, 1993, and the SCMP operations were officially suspended as of March 31, 2000. During this period, the price of gold suffered a severe decline.

The Company has suspended its gold processing until such time, if ever, as it has obtained the necessary permission from MARN.

The Company has a number of non-exclusive independent consulting agreements for the purpose of raising the sum of U.S. \$30 million. The funds are to be used to pursue reinstatement of permits, purchase and install equipment, perform site development, working capital for the SSGM open-pit, heap-leaching operation, and for continuing and expanding its exploration programs, if allowed by the Government of El Salvador.

Through December 1999, the Joint Venture produced gold primarily from processing the SSGM tailings and from the virgin mineralized material it was excavating from its SSGM open pit. The gold was processed at its SCMP facility, which was located approximately 15 miles from the SSGM site. It has contemplated the installation of a pilot open-pit, heap-leaching gold-processing system on the SSGM site. The cone crushing system is being maintained at this site. The Modesto Mine is inactive. Most of the mining properties are located in the Departments of La Union and Morazan in the Republic of El Salvador, Central America.

The Joint Venture will continue its attempts to commence its processing of gold from the SSGM site. Its objectives are to have an expanded complementary operation while continuing its endeavor to obtain sufficient funds for the SSGM open-pit, heap-leach operation. The Company's main objective and plan, through the Joint Venture, is to operate at the SSGM site, a moderate tonnage, low-grade, open-pit, heap-leaching, gold-producing mine. It intends to commence this gold-mining operation as soon, if ever, as the necessary permission is obtained from MARN and adequate funding is in place, providing the gold price remains at or above the current price level.

The Company processed gold at the SSGM site from 1972-1978 and the Joint Venture processed gold from March 1995 through December 1999 at the SCMP through a start-up or preliminary operation, which was a forerunner of its greater goals. The Company's revenues, profitability and cash flow are likely to be greatly influenced by the price of gold. Gold prices fluctuate widely and are affected by numerous factors which will be beyond the Company's control, such as, expectations for inflation, the strength of the U.S. dollar, overproduction of gold, global and regional demand, acts of terrorism, or political and economic conditions. The combined effect of these and other factors is difficult, perhaps impossible to predict. Should the market price of gold fall below the Company's production costs and remain at such level for any sustained period, the Company, even if in production, could experience losses.

### **Employees**

As of March 31, 2010, the Joint Venture employed approximately 15 to 20 full-time persons in El Salvador, to provide 24-hour seven-day-a-week security at one site; to provide computer-related services; and to handle the administration of its activities. None of the employees are covered by any collective bargaining agreements. It has developed a harmonious relationship with its employees, and it believes that at one time in the past, it was one of the largest single non-agricultural employers in the El Salvador Eastern Zone. Since the Joint Venture has laid off most of its employees, the Joint Venture had to pay their severance pay and other benefits, therefore from time to time it sold the Company's common shares which were issued to the Commerce Group Corp. Employee Benefit Account. El Salvador employees are entitled to receive severance pay, which is based on one month's pay for each year of employment.

### **Related Party Loans, Obligations and Transactions**

The related party transactions are included in detail in the Notes to the Consolidated Financial Statements.

### **Efforts to Obtain Capital**

Since the concession/licenses were granted, and through the present time, substantial effort is exercised by the Directors and Officers in attempting to secure funding through various sources, all with the purpose to construct an open-pit heap-leach operation at the SSGM site, and to continue the exploration of its other El Salvadoran mining prospects. In more than one instance, the Company has encountered difficulty in negotiating reasonable terms and conditions.

The Company, Sanseb, and the Joint Venture consider the past political situation in the Republic of El Salvador to have been unstable, and believe that the final peace declaration on December 16, 1992, has put an end to the conflict. Even though many years have passed, the stigma of the past unfavorable political status in the Republic of El Salvador exists and therefore certain investors continue to be apprehensive to invest the funds required. The decline in the Company's common stock market price places the Company in a situation of substantially diluting its common shares in order to raise equity capital. There are no assurances that funds will be available, except at this time, there continues to be a great world-wide interest in the ownership of gold. The price of gold is at a favorable height which should encourage investors to invest in gold mining companies.

## **Environmental Regulations**

The Company's mining operations are subject to the El Salvador environmental laws and regulations adopted by various governmental authorities in the jurisdictions in which the Company operates. Accordingly, the Company has adopted policies, practices and procedures in the areas of pollution control, product safety, occupational health and the production, handling, storage, use and disposal of hazardous materials to prevent material environmental or other damage, and to limit the financial liability which could result from such events. However, some risk of environmental or other damage is inherent in the business of the Company, as it is with other companies engaged in similar businesses.

The El Salvador Department of Hydrocarbons and Mines (DHM) requires environmental permits to be issued in connection with the issuance of exploitation concessions. The issuances of these permits are under the jurisdiction of the El Salvador Ministry of Environment and Natural Resources Office (MARN). On October 15, 2002, MARN issued an environmental permit under Resolution 474-2002 for the SCMP. On October 20, 2002, MARN issued an environmental permit under Resolution 493-2002 for the Renewed SSGM Exploitation area.

Reference is made to "Cash Deposits and Surety Bonds for an explanation of the lawsuit filed against the El Salvador Ministry of Environment for the revoking of the Company's environmental permits. These permits have been revoked, and appeals are pending.

## **Guarantees/Bonds**

The Company has provided the Government of El Salvador with the following guarantees: on March 15, 2006 a three-year guarantee (bond) was issued by Seguros del Pacifico on behalf of the Company to the Ministry of Environment and Natural Resources for the Renewed SSGM in the sum of \$14,428.68. As a result of the revocation of the environmental permits, the bond was returned in 2007.

On February 17, 2006, a three-year third party liability guarantee in the sum of \$42,857.14 was issued by Seguros del Pacifico on behalf of the Company to the Ministry of Economy's Office of the Department of Hydrocarbons and Mines.

## **Dividends**

For the foreseeable future, it is anticipated that the Company will use any earnings to finance its growth and expansion, therefore, dividends will not be paid to shareholders.

## **Impact of Inflation**

The impact of the United States' inflation on the Company has not been significant in recent years because of the relatively low rates of inflation and deflation experienced in the United States.

## **Item 7(a). Quantitative and Qualitative Disclosures about Market Risk**

### **Commodity Prices**

The Company's future revenues, earnings and cash flow may be strongly influenced by changes in gold prices, which fluctuate widely and over which the Company has no control. The Company, if market conditions justify, may enter into gold price protection arrangements in the future, if necessary, to ensure that it generates enough cash flow to support its growth and exploration plans and any debt related to the potential financing.

The risks associated with price protection arrangements include opportunity risk by limiting unilateral participation in upward prices; production risk associated with the requirement to deliver physical ounces against a forward commitment; and credit risk associated with counterparties to the hedged transaction. At present, the Company's future earnings and cash flow may be significantly impacted by changes in the market price of gold and silver. Gold and silver prices can fluctuate widely and are affected by numerous factors, such as demand, inflation, interest rates and economic policies to central banks, producer hedging, and the strength of the U.S. dollar relative to other currencies. During the past five years (March 31, 2005 to March 31, 2010) the London PM Fix gold price has fluctuated between a low of about \$411 per ounce in February of 2005 and a high of about \$1213 per ounce in December 2009. The Company expects gold to be its primary product in the future, but the Company cannot currently reasonably estimate its future production and therefore it cannot comment on the impact that changes in gold prices could have on its projected pre-tax earnings and cash flows.

### **Foreign Currency**

The price of gold is denominated in U.S. dollars, and the Company's current gold production operations and significant properties are located in the Republic of El Salvador. The Republic of El Salvador converted its money into the U.S. dollar system on January 12, 2001 therefore, the Republic of El Salvador's national currency is the U.S. dollar.

### **Cautionary Statement For Purposes of the "Safe Harbor" Provisions of the Private Securities Litigation Reform Act of 1995**

Some of the statements contained in this report are forward-looking statements, such as estimates and statements that describe the Company's future plans, objectives or goals, including words to the effect that the Company or management expect a stated condition or result to occur. Since forward-looking statements address future events and conditions, by their very nature, they involve inherent risks and uncertainties. Actual results in each case could differ materially from those currently anticipated in such statements by reason of factors such as production at the Company's mines, changes in operating costs, changes in general economic conditions and conditions in the financial markets, changes in demand and prices for the products the Company produces, litigation, legislative, environmental and other judicial, regulatory, political and competitive developments in areas in which the Company operates and technological and operational difficulties encountered in connection with mining.

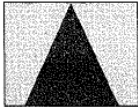
Many of these factors are beyond the Company's ability to control or predict. The Company disclaims any intent or obligation to update its forward-looking statements, either as a result of receiving new information, the occurrence of future events, or otherwise.

## **Item 8. Financial Statements and Supplementary Data**

### **Index to Consolidated Financial Statements And Supplementary Financial Data**

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Schedules of financial statements other than those listed herein have been omitted since they are either not required, are not applicable, or the required information is included in the financial statements and related notes.



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**REPORT OF INDEPENDENT REGISTERED PUBLIC ACCOUNTING FIRM**

**The Board of Directors and Shareholders**

**Commerce Group Corp.**

**Milwaukee, Wisconsin**

We have audited the accompanying consolidated balance sheets of Commerce Group Corp. (the Company) as of March 31, 2010 and 2009, and the related statements of operations, stockholders' deficit and cash flows for the years then ended. These consolidated financial statements are the responsibility of the Company's management. Our responsibility is to express an opinion on these consolidated financial statements based on our audits.

We conducted our audits in accordance with the standards of the Public Company Accounting Oversight Board (United States). Those standards require that we plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free of material misstatement. The Company is not required to have, nor were we engaged to perform, audits of its internal control over financial reporting. Our audits included consideration of internal control over financial reporting as a basis for designing audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the Company's internal control over financial reporting. Accordingly, we express no such opinion. An audit also includes examining, on a test basis, evidence supporting the amounts and disclosures in the consolidated financial statements, assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall consolidated financial statement presentation. We believe that our audits provide a reasonable basis for our opinion.

In our opinion, the consolidated financial statements referred to above present fairly, in all material respects, the consolidated financial position of Commerce Group Corp. as of March 31, 2010 and 2009, and the consolidated results of their operations and their cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

The accompanying consolidated financial statements have been prepared assuming the Company will continue as a going concern. As discussed in Note 14 to the consolidated financial statements, the Company has a working capital deficit and has suffered recurring operating losses, which raises substantial doubt about its ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 14. The consolidated financial statements do not include any adjustments that might result from the outcome of these uncertainties.

***/s/Chisholm, Bierwolf, Nilson & Morrill***

Chisholm, Bierwolf, Nilson & Morrill, LLC

Bountiful, Utah

July 9, 2010

PCAOB Registered, Members of AICPA, CPCAF and UACPA

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533 West 2600 South, Suite 25 • Bountiful, Utah 84010

12 South Main, Suite 208, Layton, Utah 84041

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Consolidated Balance Sheets--March 31,**

	<u>2010</u>	<u>2009</u>
<u>ASSETS</u>		
Current assets		
Cash	\$ 5,965	\$ 38,827
Other current assets	40,000	233,977
Accounts receivable – related, net of allowances	250,582	246,466
Supplies held for sale	6,928	39,562
Prepaid items and deposits	<u>11,236</u>	<u>14,439</u>
Total current assets	314,711	573,271
Property, plant and equipment, net	<u>76,323</u>	<u>116,324</u>
Total assets	<u>\$ 391,034</u>	<u>\$ 689,595</u>
<u>LIABILITIES AND SHAREHOLDERS'</u> <u>EQUITY (DEFICIT)</u>		
Current liabilities		
Accounts payable	\$ 2,947	\$ 16,659
Accounts payable – related	322,631	274,344
Notes and accrued interest payable to related parties	27,661,381	23,390,532
Notes and accrued interest payable to others	377,238	355,638
Accrued salaries	3,895,631	3,704,881
Accrued legal fees	546,233	506,396
Other accrued expenses – related	576,400	528,400
Other accrued expenses – other	<u>421,125</u>	<u>447,337</u>
Total current liabilities	<u>33,803,586</u>	<u>29,224,187</u>
Total liabilities	<u>33,803,586</u>	<u>29,224,187</u>
Commitments and contingencies		
Shareholders' Equity (Deficit)		
Preferred Stock		
Preferred stock, \$0.10 par value:		
Authorized 250,000 shares;		
Issued and outstanding		
2010-none; 2009-none	-	-
Common stock, \$0.10 par value:		
Authorized 50,000,000 shares; 30,750,869		
Issued and outstanding:	3,075,087	3,075,087
Capital in excess of par value	19,579,827	19,579,827
Accumulated (deficit)	<u>(56,067,466)</u>	<u>(51,189,506)</u>
Total shareholders' equity (deficit)	<u>(33,412,552)</u>	<u>(28,534,592)</u>
Total liabilities and shareholders' equity (deficit)	<u>\$ 391,034</u>	<u>\$ 689,595</u>

The accompanying notes are an integral part of these consolidated financial statements.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Consolidated Statements of Operations**  
**For the Years Ended March 31,**

		<u>2010</u>	<u>2009</u>
Revenues:	\$ _____	\$ _____	-
Expenses:			
General and administrative	679,307	153,423	
Bad debt expense	-	346,257	
Impairment on mining resources investment	-	21,213,950	
Impairment on property, plant and equipment	_____	<u>4,835,353</u>	
Total expenses	<u>679,307</u>	<u>26,548,983</u>	
Net (loss) from operations	<u>(679,307)</u>	<u>(26,548,983)</u>	
Other income (expense)			
Loss on asset valuation	(61,529)		-
Interest expense	<u>(4,137,124)</u>	(3,467,800)	
Total other income (expense)	(4,198,653)	(3,467,800)	
Net (loss) before income taxes	(4,877,960)	(30,016,783)	
Income tax expense	_____	_____	
Net (loss)	<u>\$(4,877,960)</u>	<u>\$(30,016,783)</u>	
Net (loss) per share basic/diluted	<u>\$ (.16)</u>	<u>\$ (.98)</u>	
Weighted average basic/diluted common shares outstanding	<u>30,750,869</u>	<u>30,723,711</u>	

The accompanying notes are an integral part of these consolidated financial statements.



**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Consolidated Statements of Changes in Shareholders' (Deficit)**  
**For the Years Ended March 31, 2010 and 2009**

	<u>Preferred Stock</u>		<u>Common Stock</u>		<u>Capital in Excess of Par Value</u>	<u>Accumulated (Deficit)</u>
	<u>Number of Shares</u>	<u>Par Value</u>	<u>Number of Shares</u>	<u>Par Value</u>		
Balances March 31, 2008	-	\$ -	30,715,869	\$3,071,587	\$19,579,827	\$(21,172,723)
Net (loss) for fiscal year ended March 31, 2009						\$(30,016,783)
Common stock issued for:						
Services	_____	_____	<u>35,000</u>	<u>3,500</u>	<u>0</u>	_____
Balances March 31, 2009	-	\$ -	30,750,869	\$3,075,087	\$19,579,827	\$(51,189,506)
Net (loss) for fiscal year ended March 31, 2010						\$ (4,877,960)
Balances March 31, 2010	_____ -	\$ _____ -	<u>30,750,869</u>	<u>\$3,075,087</u>	<u>\$19,579,827</u>	<u>\$(56,067,466)</u>

The accompanying notes are an integral part of these consolidated financial statements.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Consolidated Statements of Cash Flows**  
**For the Years Ended March 31,**

	2010	2009
<b>Operating activities:</b>		
Net (loss)	\$(4,877,960)	\$(30,016,783)
Adjustments to reconcile net loss to net cash provided by (used in) operating activities:		
Common stock issued for Directors' fees and for services rendered	-	3,500
Bad debt expense	-	346,257
Loss on impairment on property, plant and equipment	-	4,729,933
Loss on impairment on mining resources investment	-	20,763,318
Loss on asset valuation	61,529	-
Changes in assets and liabilities:		
Decrease (increase) in mining supplies	31,969	-
Decrease (increase) in other current assets	132,448	-
Decrease (increase) in accounts receivable and other current assets/liabilities	(4,116)	(7,075)
Decrease (increase) in prepaid items and deposits	3,203	494
Increase (decrease) in accounts payable and other accrued expenses	34,576	(91,906)
Increase in accrued interest to related parties	4,115,524	3,467,800
Increase in accrued interest to others	21,600	-
Increase (decrease) in accrued legal fees	39,836	51,953
Increase (decrease) in accrued salaries	190,750	190,750
Decrease (increase) in other accruals – related	48,000	56,800
Decrease (increase) in other accruals	<u>(26,212)</u>	<u>29,161</u>
Net cash provided by (used in) operating activities	(228,853)	(475,798)
<b>Investing activities:</b>		
Investment in mining resources and property, plant and equipment	-	-
Cash received, scrap metal	<u>40,667</u>	<u>-</u>
Net cash provided (used in) investing activities	40,667	-
<b>Financing activities:</b>		
Cash received, related party notes payable	155,324	513,317
Common stock issued for cash	<u>-</u>	<u>-</u>
Net cash provided by financing activities	155,324	513,317
Net increase (decrease) in cash and cash equivalents	(32,862)	37,519
Cash - beginning of year	<u>38,827</u>	<u>1,308</u>
Cash - end of year	<u>\$ 5,965</u>	<u>\$ 38,827</u>

Supplemental disclosures of cash information:

	Year Ended			
	<u>March 31, 2010</u>		<u>March 31, 2009</u>	
	<u>Shares</u>	<u>Amount</u>	<u>Shares</u>	<u>Amount</u>
A. Cash information				
1. Interest expense paid in cash	-	-	-	-
2. Income taxes paid	-	-	-	-
B. Non cash investing and financing				
Common stock issued for: Director fees, officer compensation, employee benefits and services	-	35,000	\$	3,500

The accompanying notes are an integral part of these consolidated financial statements



**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements**  
**March 31, 2010**

**Note 1 - The Company and Basis of Presentation of Financial Statements**

Commerce Group Corp., a Wisconsin-based corporation organized in 1962 ("Commerce," the "Company" and/or "Registrant") and its 82 1/2%-owned subsidiary, San Sebastian Gold Mines, Inc., a Nevada corporation organized in 1968 ("Sanseb"), have formed the Commerce/Sanseb Joint Venture ("Joint Venture") for the purpose of performing gold mining, the sale of gold, and related activities, including, but not limited to, exploration, exploitation, development, extraction and processing of precious metals in the Republic of El Salvador, Central America. Reference to Commerce, the Company and/or Registrant, includes all of the Company's wholly-owned or partially-owned subsidiaries and the Commerce/Sanseb Joint Venture or any one or more of them as the context requires. In the past, gold bullion was produced (but not on a full production basis) in El Salvador and refined and sold in the United States. Expansion of exploration is a goal at the San Sebastian Gold Mine ("SSGM") which is located near the city of Santa Rosa de Lima, El Salvador, Central America, and at the other previously licensed mining exploration areas neighboring the SSGM site. In October 2008 the Directorate of Mines notified the Company that it was not honoring the Company's previous request for an extension of the exploration permits at the San Sebastian and Nueva Esparta areas. The Company believes this notice is unwarranted and an appeal is pending. All of the mining projects are located in the Republic of El Salvador, Central America. Commerce is a reporting company and its common shares are traded on the Over-the-Counter Bulletin Board (CGCO.OB), the Pink OTC Markets (CGCO), and on the Berlin-Bremen Stock Exchange (C9G).

***Consolidated Statements***

The Joint Venture and the following subsidiaries are all majority-owned by the Company and are included in the consolidated financial statements of the Company. All significant intercompany balances and transactions have been eliminated. Not included in the consolidated statements is Mineral San Sebastian, S.A. de C.V. (Misanse) as the Company does not have corporate control of Misanse because the majority of Misanse's elected directors must be El Salvadoran shareholders.

<u>Included in the Consolidated Statements</u>	<u>% Ownership</u>	<u>Charter/Joint Venture</u>	
		<u>Place</u>	<u>Date</u>
Homespan Realty Co., Inc. ("Homespan")	100.0	Wisconsin	02/12/1959
Ecomm Group Inc. ("Ecomm")	100.0	Wisconsin	06/24/1974
San Luis Estates, Inc. ("SLE")	100.0	Colorado	11/09/1970
San Sebastian Gold Mines, Inc. ("Sanseb")	82.5	Nevada	09/04/1968
Universal Developers, Inc. ("UDI")	100.0	Wisconsin	09/28/1964
Commerce/Sanseb Joint Venture ("Joint Venture")	90.0	Wisconsin & El Salvador	09/22/1987
<u>Not included in the Consolidated Statements</u>			
Mineral San Sebastian, S.A. de C.V. ("Misanse")	52.0	El Salvador	05/08/1960

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 2 - Significant Accounting Policies**

***Management estimates and assumptions:***

Certain amounts included in or affecting the Company's consolidated financial statements and related disclosures must be estimated, requiring that certain assumptions be made with respect to values or conditions which cannot be made with certainty at the time the financial statements are prepared. Therefore, the reported amounts of the Company's assets and liabilities, revenues and expenses, and associated disclosures with respect to contingent assets and obligations are necessarily affected by these estimates. The Company evaluates these estimates on an ongoing basis, utilizing historical experience, consultation with experts, and other methods considered reasonable in the particular circumstances. Nevertheless, actual results may differ significantly from the Company's estimates.

The more significant areas requiring the use of management estimates and assumptions relate to mineralized material that are the basis for future cash flow estimates and units-of-production amortization determination; updating feasibility studies, recoverability and timing of gold production from the heap-leaching process; environmental, reclamation and closure obligations; asset impairments (including estimates of future cash flows); useful lives and residual values of intangible assets; fair value of stock based compensation; fair value of financial instruments and non-monetary transactions; valuation allowances for deferred tax assets; and contingencies and litigation. The Company's estimates are based on historical experience and on various other assumptions that are believed to be reasonable under the circumstances.

Management's estimates of gold and other metal prices, recoverable gold, operating, capital, and reclamation costs are subject to certain risks and uncertainties which may affect the recoverability of the Company's investment in property, plant, and equipment. Although management has made its best estimate of these factors based on current conditions, it is reasonably possible that changes could occur in the near-term which could adversely affect management's estimate of the net cash flows expected to be generated from its mining properties.

Estimates of future cash flows are subject to risks and uncertainties. It is possible that changes could occur which may affect the recoverability of property, plant and equipment.

***Accounting Method***

The Company recognizes income and expenses on the accrual basis of accounting. The Company has elected a March 31 year end.

***Minority Interest***

During the twelve-months ended March 31, 2010 and 2009, there were no expenses in the entities wherein minority interests existed. Minority interest as a whole is immaterial in these financial statements and therefore has not been presented.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 2 - Significant Accounting Policies (Continued)**

***Other Current Assets***

Other current assets consist primarily of stock of the Company held for reimbursement of medical and other expenses incurred by employees of the Company in El Salvador. The Company is required by the El Salvadoran government to set aside assets for the payment of medical and other expenses of El Salvadoran employees. During the year ended March 31, 2010, the Company revalued those assets held aside for reimbursement of expenses at current market values. As such, the Company recognized a loss on valuation of assets of \$ 61,529. Other current assets at year end March 31, 2010 and 2009 were \$40,000 and \$101,529, respectively.

The El Salvadoran vacation and Christmas bonus payments are due when earned while the severance pay is due and payable at such time when the employee has been discharged, retired, permanently laid off, death or when incapable of working due to permanent health/work related conditions. The Company has sole control and jurisdiction over this account and to the best of the Company's knowledge, there is absolutely no condition, right, or requirement by the El Salvadoran authorities to have such funds in any form of a reserve.

Also, previously included in other current assets were certain precious stones and jewelry stated at cost of \$132,448 as of March 31, 2010 and 2009. The Directors approved the sale of these assets to the Sylvia Machulak Rollover Individual Retirement Account at the Company's cost for the purpose of reducing the open-ended, secured, on-demand promissory notes due to the Sylvia Machulak Rollover Individual Retirement Account by the sum of \$132,448. The Company entered into an agreement with Sylvia Machulak on behalf of the Sylvia Machulak Rollover Individual Retirement Account to effect this transaction. Reference is made to Exhibit 99 of the Company's S.E.C. Form 8-K filed on March 29, 2010.

***Accounts Receivable - Related***

The accounts receivable - related balance consists of advances to Mineral San Sebastian S.A. (Misanse), which is 52% owned by the Company. These advances are an offset for the past and future Misanse rental charges that are included in the accounts payable. An accounting is as follows:

	<u>Misanse</u>	<u>Others</u>	<u>Total</u>
Accounts receivable	\$250,582	\$ 0	\$250,582
Accounts payable	\$250,582	\$ 74,996	\$325,578

On March 26, 2008, at a Misanse shareholders' meeting held at the Company's City of San Miguel, El Salvador office, the Misanse shareholders and the Misanse Directors approved, confirmed and ratified the amount that Misanse owed the Company for advances and other obligations the Company incurred on behalf of Misanse. The amount due to Misanse at that time was also approved, ratified and confirmed.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 2 - Significant Accounting Policies (Continued)**

*Accounts Receivable – Related (Continued)*

The Company is of the opinion that it is appropriate to record the fact that Misanse owes the Company \$596,839 and that the Company owes Misanse \$250,582 as Misanse is not consolidated with the Company's financial records. If gold production commences, the 5% royalty payable to Misanse for rent of the San Sebastian Gold Mine property based on the gross proceeds from the sale of gold and the accounts payable offset will reduce this receivable until it is paid in full.

Due to the fact that the country of El Salvador where the Company is planning to mine revoked its mining permits and the Company is in the process of challenging that decision, management determined that the collectability of the Misanse-related receivable is uncertain. Therefore, it set up an allowance of \$346,257 for bad debts during its fiscal year ended March 31, 2009, and as of its fiscal year ended March 31, 2010, left a balance of \$250,582 in accounts receivable.

*Supplies Held for Sale*

Supplies held for sale consist of consumable items used in processing mineralized material. The Company is in the process of liquidating its consumables and has reduced the value to the amount it anticipates to recover.

*Cash Equivalents*

The Company considers all highly liquid investments with an original maturity of three months or less to be cash equivalents.

*Mining Resources Investment*

The Company, in order to avoid expense and revenue unbalance expenses all costs directly associated with acquisition, exploration and development of specific properties. Gains or losses resulting from the sale or abandonment of mining properties will be included in operations. The Joint Venture expenses its costs.

The Company regularly evaluates its carrying value of exploration properties in light of their potential for economic mineralization and the likelihood of continued work by either the Company or a joint venture partner.

The Company may, from time to time, reduce its carrying value to an amount that approximates fair market value based upon an assessment of such criteria.

*Revenue Recognition*

Revenue from the sale of gold will be recognized when delivery has occurred, title and risk of loss passes to the buyer, and collectability is reasonably assured. Gold sales will be made in accordance with sales contracts where the price is fixed or determinable. No revenue has been recognized for the years presented.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 2 - Significant Accounting Policies (Continued)**

***Property, Plant and Equipment***

Property, plant, and equipment are stated at the lower of cost or estimated net realizable value. Mining properties, development costs and plant and equipment are depreciated using the straight-line method over estimated useful lives ranging from three to ten years. Depreciation and amortization expenses include the amortization of assets acquired, if any, under capital leases. Replacements and major improvements are capitalized. Maintenance and repairs will be charged to expense based on average estimated equipment usage. Interest costs incurred in the construction or acquisition of property, plant, and equipment are expensed when incurred.

***Impairments of Long-Lived Assets***

The Company evaluates the carrying value of the unamortized balances of long-lived assets to determine whether any impairment of these assets has occurred or whether any revision to the related amortization periods should be made, in accordance with GAAP, which addresses financial accounting and reporting for the impairment or disposal of long-lived assets. Those long-lived assets include the mine development, mineral interest, mining properties, and property, plant and equipment. This evaluation is based on management's projections of the undiscounted future cash flows associated with each asset. If management's evaluation were to indicate that the carrying values of these assets were impaired, such impairment would be recognized by a write down of the applicable asset.

For the fiscal year ended March 31, 2009, the Company performed an impairment test over long-lived assets including mining resources and property, plant and equipment. Testing for impairment of long-lived assets requires significant management judgment regarding future cash flows, asset lives, and discount rates. The Company considered a number of factors including the cancellation of its permits by the Government of El Salvador, the fact that there has been no resolution of the Company's legal challenges to this action initiated in El Salvador, the unwillingness of the El Salvadoran Government to engage in any discussions after the Company gave notice of its intent to file for arbitration under CAFTA-DR on March 17, 2009 (and consequently, the need to file for arbitration before the International Centre for Settlement of Investment Disputes (ICSID) on July 2, 2009), and public statements made by members of the Government of El Salvador elected in March 2009.

Given all of these factors and events, the Company determined that its assets have been impaired and the Company has made significant adjustments to account for impairment. A pre-tax charge of \$21,213,950 was recognized in the fourth quarter ending March 31, 2009, fully impairing the mining resource assets. Additionally, a pre-tax charge of \$4,835,353 was recognized in the fourth quarter ending March 31, 2009, related to impairment of plant and equipment. The Company did not impair the plant and equipment for the amount of \$116,324 during the fourth quarter ending March 31, 2009 because it believed that it would be fully recoverable. During the fiscal year ended March 31, 2010, \$40,002 was recovered and the remaining balance of \$76,322 represents the cost of land that management believes is fully recoverable.



**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 2 - Significant Accounting Policies (Continued)**

***Asset Retirement Obligations***

Accounting for Asset Retirement Obligations in accordance with GAAP which requires that the fair value of a liability for an asset retirement obligation be recognized in the period in which it is incurred if a reasonable estimate of fair value can be made. Fair value is determined by estimating the retirement obligations in the period an asset is first placed in service and then adjusting the amount for estimated inflation and market risk contingencies to the projected settlement date of the liability. The result is then discounted to a present value from the projected settlement date to the date the asset was first placed in service or to the change in estimate/timing. The present value of the asset retirement obligation is recorded as an additional property cost and as an asset retirement liability. The amortization of the additional property cost (using the units of production method) is included in depreciation, depletion and amortization expense and the accretion of the discounted liability is recorded as a separate operating expense in the Company's statement of operations. No impairment has been recorded as of the periods presented.

***Income Taxes***

The Company files a consolidated federal income tax return with its subsidiaries (See Note 9). The Joint Venture files a U.S. partnership return.

***Loss Per Common Share***

In accordance with GAAP, the basic net loss per share is computed by dividing net loss reportable to common shareholders (the numerator) by the weighted average number of common shares outstanding (the denominator). The computation of diluted net loss per share is similar to the computation of basic net loss per share except that the denominator is increased to include the dilutive effect of the additional common shares that would have been outstanding if all convertible securities, stock options, rights, share loans etc. had been converted to common shares, however, there were no such dilutive items as of March 31, 2010, 2009 and 2008.

The computation of diluted EPS shall not assume conversion, exercise, or contingent issuance of securities that would have an antidilutive effect on earnings per share. The number of shares that could be issued according to Note 10 stock rights, but are not included in fully diluted EPS due to antidilutive effect are as follows:

19,249,131 and 19,276,289 for the fiscal periods ended March 31, 2010 and 2009 respectively. Shares issued on actual conversion, exercise, or satisfaction of certain conditions for which the underlying potential common shares were antidilutive shall be included in the computation as outstanding common shares from the date of conversion, exercise, or satisfaction of those conditions, respectively. Therefore, there is no difference in the loss or the number of basic or diluted shares.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 2 - Significant Accounting Policies (Continued)**

***Loss Per Common Share (Continued)***

The computation of loss per share of common stock is based on the weighted average number of shares outstanding at the date of the financial statements.

	<u>Net Loss</u> <u>(Numerator)</u>	<u>Shares</u> <u>(Denominator)</u>	<u>Per-Share</u> <u>Amount</u>
For the year ended March 31, 2010:			
Basic and diluted EPS			
Net loss to common Shareholders	\$(4,877,960)	30,750,869	\$ (0.16)
For the year ended March 31, 2009:			
Basic and diluted EPS			
Net loss to common Shareholders	\$(30,016,783)	30,723,711	\$ (0.98)

***Foreign Currency***

The Company conducts the majority of its operations in the Republic of El Salvador, Central America. Currently, El Salvador is on the U.S. dollar system and therefore all transactions since January 1, 2001 are reported in U.S. dollars.

***Stock Options***

Prior to January 1, 2006, the Company accounted for stock compensation plans under the recognition and measurement provisions of FASB ASC 718-50. No stock-based employee compensation cost was recognized for stock option awards in the consolidated statements of operations for the periods prior to January 1, 2006, as all options granted under those plans had an exercise price equal to the market value of the Common Stock on the date of the grant in accordance with FASB ASC 718-50.

Effective January 1, 2006, the Company adopted the fair value recognition provisions of FASB ASC 718-50 using the modified-prospective-transition method. Under this transition method, total compensation cost includes compensation costs for all share-based payments granted prior to, but not yet vested as of January 1, 2006, based on the grant date fair value estimated in accordance with the original provisions of FASB ASC 718-50, and the compensation costs for all share-based payments granted subsequent to January 1, 2006, based on the grant date fair value estimated in accordance with the provisions of FASB ASC 718-50. The Company estimated the fair value of its option awards granted prior to January 1, 2006 using the Black-Scholes option-pricing formula, and the Company continues to use this model. The Company records compensation expense for stock options ratably over the options vesting period. Results for prior periods have not been restated.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 2 - Significant Accounting Policies (Continued)**

***Fair Value of Financial Instruments***

Unless otherwise indicated, the fair values of all reported assets and liabilities which represent financial instruments (none of which are held for trading purposes) approximate the carrying values of such amounts.

On January 1, 2008, the Company adopted FASB ASC 820-10 (formerly SFAS No. 157, "Fair Value Measurement.") FASB ASC 820-10 defines fair value, establishes a three-level valuation hierarchy for disclosures of fair value measurement and enhances disclosure requirements for fair value measures. The three levels are defined as follows:

- Level 1 inputs to the valuation methodology are quoted prices (unadjusted) for identical assets or liabilities in active markets.
- Level 2 inputs to the valuation methodology include quoted prices for similar assets and liabilities in active markets, and inputs that are observable for the asset or liability, either directly or indirectly, for substantially the full term of the financial instrument.
- Level 3 inputs to valuation methodology are unobservable and significant to the fair measurement.

The fair value of the Company's cash and cash equivalents, receivables, accounts payable and accrued liabilities approximate carrying value based on their effective interest rates compared to current market prices.

The Company's financial instruments consist of cash, receivables, payables, and notes payable. The carrying amount of cash, receivables and payables approximates fair value because of the short-term nature of these items. The carrying amount of the notes payable approximates fair value as the individual borrowings bear interest at market interest rates.

***Subsequent Events***

The Company has evaluated subsequent events from the balance sheet date through the date the financial statements were issued and has determined that there are no events that would have a material impact on the financial statements.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 3 - Investment in Property, Plant, Equipment and Mining Resources**

The following is a summary of the investment in property, plant, equipment, mining resources and development costs:

	<u>March 31, 2010</u>				<u>March 31, 2009</u>			
	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>3/31/09 Impairment</u>	<u>Net</u>	<u>Cost</u>	<u>Accumulated Depreciation</u>	<u>Impairment</u>	<u>Net</u>
Mineral Properties and Deferred Development	\$ 0	\$ 0	\$ 0	\$ 0	\$21,213,950	\$ 0	\$(21,213,950)	\$ 0
Property, Plant and Equipment	<u>7,163,818</u>	<u>(2,252,143)</u>	<u>(4,835,353)</u>	<u>76,322</u>	<u>7,203,820</u>	<u>(2,252,143)</u>	<u>(4,835,353)</u>	<u>116,324</u>
	<u>\$7,163,818</u>	<u>\$(2,252,143)</u>	<u>\$(4,835,353)</u>	<u>\$76,322</u>	<u>\$28,417,770</u>	<u>\$(2,252,143)</u>	<u>\$(26,049,303)</u>	<u>\$116,324</u>
Breakdown of Property, Plant and Equipment:								
SCMP Plant No. 1	\$2,061,585	\$(1,360,932)	\$ (700,653)	\$ 0	\$2,061,585	\$(1,360,932)	\$ (700,653)	\$ 0
SCMP Plant No. 2	2,983,845	(429,525)	(2,554,320)	0	3,023,847	(429,525)	(2,554,320)	40,002
SCMP Mach and Tools	94,531	(94,531)	0	0	94,531	(94,531)	0	0
SCMP Crushing Plant	1,576,887	0	(1,576,887)	0	1,576,887	0	(1,576,887)	0
SCMP Vehicles	202,675	(202,675)	0	0	202,675	(202,675)	0	0
SSGM Lab-Bldg.	29,789	(26,296)	(3,493)	0	29,789	(26,296)	(3,493)	0
SSGM Lab-Equip.	110,702	(110,702)	0	0	110,702	(110,702)	0	0
SSGM Metal Shed	553	(553)	0	0	553	(553)	0	0
SMO Office	26,929	(26,929)	0	0	26,929	(26,929)	0	0
SSGM Land	2,441	0	0	2,441	2,441	0	0	2,441
Modesto Land	<u>73,881</u>	<u>0</u>	<u>0</u>	<u>73,881</u>	<u>73,881</u>	<u>0</u>	<u>0</u>	<u>73,881</u>
		<u>\$(2,252,143)</u>	<u>(4,835,353)</u>			<u>\$(2,252,143)</u>	<u>(4,835,353)</u>	

Vehicles, office, mining and laboratory equipment, buildings, etc. are stated at cost and are depreciated using the straight-line method over estimated useful lives of three to ten years. Maintenance and repairs are charged to expense as incurred. Gains or losses on dispositions are included in operations. Reference is made to Property, Plant and Equipment in Note (2) Significant Accounting Policies.

For the fiscal year ended March 31, 2009, the Company performed an impairment test over long-lived assets including mining resources and property, plant and equipment. Testing for impairment of long-lived assets requires significant management judgment regarding future cash flows, asset lives, and discount rates. The Company considered a number of factors including the cancellation of its permits by the Government of El Salvador, the fact that there has been no resolution of the Company's legal challenges to this action initiated in El Salvador, the unwillingness of the El Salvadoran Government to engage in any discussions after the Company gave notice of its intent to file for arbitration under CAFTA-DR on March 17, 2009 (and consequently, the need to file for arbitration before the International Centre for Settlement of Investment Disputes (ICSID) on July 2, 2009), and public statements made by members of the Government of El Salvador elected in March 2009.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 3 - Investment in Property, Plant, Equipment and Mining Resources (Continued)**

Given all of these factors and events, the Company determined that its assets have been impaired and the Company has made significant adjustments to account for impairment. A pre-tax charge of \$21,213,950 was recognized in the fourth quarter ending March 31, 2009, fully impairing the mining resource assets. Additionally, a pre-tax charge of \$4,835,353 was recognized in the fourth quarter ending March 31, 2009, related to impairment of plant and equipment. The Company did not impair the plant and equipment for the amount of \$116,324 during the fourth quarter ending March 31, 2009 because it believed that it would be fully recoverable. During the fiscal year ended March 31, 2010, \$40,002 was recovered and the remaining balance of \$76,322 represents the cost of land that management believes is fully recoverable.

**Note 4 - Commerce/Sanseb Joint Venture (“Joint Venture”)**

The Company is in a joint venture with and owns 82 1/2% of the total common stock (2,002,037 shares) of Sanseb, a U.S. State of Nevada chartered (1968) corporation. Approximately 180 non-related shareholders, including the late President of the Company who owns 2,073 common shares, hold the balance of Sanseb's stock. Sanseb was formed in 1968 to explore, exploit, research, and develop adequate gold reserves and to produce gold. Sanseb produced gold from the SSGM from 1972 through February 1978.

On September 22, 1987, the Company and Sanseb entered into a joint venture agreement to formalize their relationship with respect to the mining venture and to account for the Company's substantial investment in Sanseb. Under the terms of the agreement, the Company is authorized to supervise and control all of the business affairs of the Joint Venture and has the authority to do all that is necessary to resume mining operations at the SSGM on behalf of the Joint Venture. The net pre-tax profits of the Joint Venture will be distributed as follows: Company 90%; and Sanseb 10%. Since the Company owns 82 1/2% of the authorized and issued common shares of Sanseb, the Company in effect has over a 98% interest in the Joint Venture activities.

The joint venture agreement further provides that the Company has the right to be compensated for its general and administrative expenses in connection with managing the Joint Venture.

Under the joint venture agreement, agreements signed by the Company for the benefit of the Joint Venture create obligations binding upon the Joint Venture.

The Joint Venture is registered to do business in the State of Wisconsin and in the Republic of El Salvador, Central America.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 4 - Commerce/Sanseb Joint Venture (“Joint Venture”) (Continued)**

***Investment in El Salvador Mining Projects***

During the fiscal year, the Company has advanced funds, performed services, and allocated its general and administrative costs to the Joint Venture.

As of March 31, 2010 and 2009, the Company, Sanseb and three of the Company’s subsidiaries have invested (including carrying costs) the following in its Joint Venture:

	<u>2010</u>	<u>2009</u>
The Company’s advances (net of gold sale proceeds) since 09/22/87	\$84,587,693	\$78,235,144
The Company’s initial investment in the Joint Venture	3,508,180	3,508,180
Sanseb’s investment in the Joint Venture	3,508,180	3,508,180
Sanseb’s investment in the mining projects and amount due to the Company	<u>57,888,800</u>	<u>54,934,334</u>
Total:	\$149,492,853	\$140,185,838
Advances by the Company’s three subsidiaries	<u>590,265</u>	<u>590,265</u>
Combined total investment	<u>\$150,083,118</u>	<u>\$140,776,103</u>

Amounts shown include all intercompany investments prior to elimination for consolidation. All intercompany balances and transactions have been eliminated.

***Exploration Activity***

The Company had no significant activity at the SSGM site from February 1978 through January 1987 due to the civil unrest in El Salvador. The present status is that, the Company, since January 1987, and thereafter, the Joint Venture, since September 1987, have completed certain of the required mining pre-production preliminary stages in the effort to locate and evaluate the minable and proven gold ore reserve area, and the Company is active in attempting to obtain adequate financing at acceptable terms and conditions for the proposed open-pit, heap-leaching operations at the SSGM. The Joint Venture plans to resume its exploration and expansion program and to identify and develop gold ore reserves in the area surrounding the SSGM, if permitted to do so by the Government of El Salvador and if the necessary financing is obtained. In October 2008 the Directorate of Mines notified the Company that it was not honoring the Company's previous request for an extension of the exploration permits at the San Sebastian and Nueva Esparta areas. The Company believes this notice is unwarranted and an appeal is pending.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 4 - Commerce/Sanseb Joint Venture (“Joint Venture”) (Continued)**

***El Salvador Mineral Production Fees***

As of July 2001, a series of revisions to the El Salvador Mining Law offered to make exploitation more attractive. The principal change was that the fee payable to the GOES was reduced to two percent of the gross gold and silver receipts.

**Note 5 - Synopsis of Real Estate Ownership and Leases**

The Company's 52%-owned subsidiary, Misanse, owns the 1,470 acre SSGM site located near the city of Santa Rosa de Lima in the Department of La Union, El Salvador. The Company, through its late President, also owns approximately 63 acres at the Modesto Mine in El Salvador. In addition, the Joint Venture from time to time has entered into term agreements with others to have access to other properties. Payment for these agreements is based on the production of gold payable in the form of royalties. The Company also leases on a month-to-month basis approximately 4,032 square feet of office space in Milwaukee, Wisconsin.

**Note 6 - Notes Payable and Accrued Interest**

	<u>03/31/10</u>	<u>03/31/09</u>
Related Parties		
Mortgage and promissory notes to related parties, interest ranging from one percent to four percent over prime rate, but not less than 16%, payable monthly, due on demand, using the Misanse lease, real estate and all other assets owned by the Company, its subsidiaries and the Joint Venture as collateral. (Note 7)	\$27,661,381	\$23,390,532
Other		
Short-term notes and accrued interest (March 31, 2010, \$242,238 and March 31, 2009, \$220,638) issued to other non related parties, interest rates of varying amounts, in lieu of actual cash payments and includes a mortgage on a certain parcel of land pledged as collateral located in El Salvador.	<u>377,238</u>	<u>355,638</u>
Total:	<u>\$28,038,619</u>	<u>\$23,746,170</u>

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 7 - Related Party Transactions**

The Company, in an attempt to preserve cash, had prevailed on its late President to accrue his salary for the past 26.58 years, including vacation pay, for a total of \$3,455,786 and \$3,455,786 at March 31, 2010 and 2009, respectively. The current President has also agreed to accrue his salary and vacation pay beginning April 1, 2008, which totals \$363,229 and \$184,479 as of March 31, 2010 and March 31, 2009, respectively.

In addition, with the consent and approval of the Directors, the late President of the Company, as an individual and not as a Director or Officer of the Company, entered into the following financial transactions with the Company, the status of which is reflected as of March 31, 2010 and 2009:

The amount of cash funds which the Company has borrowed from its late President from time to time, together with accrued interest, amounts to \$18,413,742 and \$15,673,362 at March 31, 2010 and 2009, respectively; the 2010 interest was \$2,740,380 and the 2009 interest was \$2,334,081. To evidence this debt, the Company has issued to its late President a series of open-ended, secured, on-demand promissory notes, with interest payable monthly at the prime rate plus two percent, but not less than 16% per annum.

The Company had borrowed an aggregate of \$1,973,589 and \$1,679,874 at March 31, 2010 and 2009, respectively, including accrued interest, from the Company's late President's Rollover Individual Retirement Account (ELM RIRA). The 2010 interest was \$293,715 and the 2009 interest was \$250,003. These loans are evidenced by the Company's open-ended, secured, on-demand promissory note, with interest payable monthly at the prime rate plus four percent per annum, but not less than 16% per annum.

In order to satisfy the Company's cash requirements from time to time, the Company's late President has sold or pledged as collateral for loans, shares of the Company's common stock owned by him. In order to compensate its late President for selling or pledging his shares on behalf of the Company, the Company had made a practice of issuing him the number of restricted shares of common stock equivalent to the number of shares sold or pledged, plus an additional number of shares equivalent to the amount of accrued interest calculated at the prime rate plus three percent per annum and payable monthly. The Company receives all of the net cash proceeds from the sale or from the pledge of these shares. The Company did not borrow any common shares during this fiscal year. The share loans, if any, are all in accordance with the terms and conditions of Director-approved, open-ended loan agreements dated June 20, 1988, October 14, 1988, May 17, 1989, and April 1, 1990.

On February 16, 1987, the Company granted its late President, by unanimous consent of the Board of Directors, compensation in the form of a bonus in the amount of two percent of the pre-tax profits realized by the Company from its gold mining operations in El Salvador, payable annually over a period of twenty years commencing on the first day of the month following the month in which gold production commences.

The late President, as an individual, and not as a Director or Officer of the Company, presently owns a total of 467 Misense common shares. There are a total of 2,600 Misense common shares issued and outstanding.



**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 7 - Related Party Transactions (Continued)**

Also with the consent and approval of the Directors, a company in which the late President has a 55% ownership, General Lumber & Supply Co., Inc. (GLSCO), entered into the following agreements, and the status is reflected as of March 31, 2010 and March 31, 2009:

The Company leased approximately 4,032 square feet on a month-to-month basis for its corporate headquarters' office; the monthly rental charge was \$2,789. The same related company provides administrative services, use of its vehicles, and other property, as required by the Company.

In lieu of cash payments for the office space rental and for the consulting, administrative services, etc., these amounts due are added each month to this related company's open-ended, secured, on-demand promissory note issued by the Company.

In addition, this related company does from time to time use its credit facilities to purchase items needed for the Company or for the Joint Venture's mining needs.

This related company has been issued an open-ended, secured, on-demand promissory note, which amounts to \$5,136,655 and \$4,112,818 at March 31, 2010 and 2009, respectively; the 2010 interest was \$745,065 and the 2009 interest was \$586,238. The annual interest rate is four percent plus the prime rate, but not less than 16%, and it is payable monthly.

The Company's Directors have consented and approved the following transactions of which the status of each are reflected as of March 31, 2010 and 2009:

The late President's wife's Rollover Individual Retirement Account (SM RIRA) has the Company's open-ended, secured, on-demand promissory note in the sum of \$1,240,546 and \$1,168,811 at March 31, 2010 and 2009, respectively; the 2010 interest was \$204,182 and the 2009 interest was \$173,945. The annual interest rate is three percent plus the prime rate, but not less than 16%, and it is payable monthly.

The Directors also have acknowledged that the wife of the late President is to be compensated for her consulting fees due to her from October 1, 1994 through September 30, 2000 or 72 months at \$2,800 a month, and thereafter at \$3,000 per month. The Company owes her as an individual and as a consultant, the sum of \$543,600 and \$507,600 at March 31, 2010 and 2009, respectively, for services rendered from October 1994.

The second oldest son of the late President and his son's wife have the Company's open-ended, on-demand promissory note in the sum of \$404,841 and \$344,591 at March 31, 2010 and 2009, respectively; the 2010 interest was \$60,249 and the 2009 interest was \$51,283. The annual interest rate is three percent plus the prime rate, but not less than 16%, and it is payable monthly.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 7 - Related Party Transactions (Continued)**

The Law Firm which represents the Company in which the second oldest son of the late President is a principal is owed the sum of \$546,232.50 for 2,427.7 hours of legal services rendered from July 1980 through March 31, 2010. By agreement on the date of payment, these fees are to be adjusted to commensurate with the current hourly fees charged by the Law Firm.

The current President, who has controlling ownership of a company called Circular Marketing, Inc., has the Company's open-ended, secured, on-demand promissory note in the sum of \$468,601 and \$391,152 at March 31, 2010 and 2009, respectively; the 2010 interest was \$68,449 and the 2009 interest was \$44,970. The annual interest rate is four percent plus the prime rate, but not less than 16%, and it is payable monthly.

The late President's half brother has a promissory note in the sum of \$23,407 and \$19,923 at March 31, 2010 and 2009, respectively; the 2010 interest was \$3,483 and the 2009 interest was \$2,965. The annual interest rate is four percent plus the prime rate, but not less than 16%, and it is payable monthly.

The Directors, by their agreement, have deferred cash payment of their Director fees beginning on January 1, 1981, until such time as the Company's operations are profitable. Effective from October 1, 1996 to March 31, 2009, the Director fees were \$1,200 for each quarterly meeting and \$400 for attendance at any other Directors' meeting; and the Executive Committee Director fees were \$400 for each meeting. At a Board of Directors' meeting held in June of 2009, the Directors agreed to amend the Director fees to be \$600 for attendance at any meeting retroactive to April 1, 2009.

The Directors and Officers have an option to receive cash at such time as the Company has profits and an adequate cash flow, or to at any time exchange the amount due to them for the Company's common shares. The Chairman/President does not receive any Director fees. The total amount due for accrued Director fees during this fiscal year is \$32,800. All of the Directors agreed to accrue the amount due to them for Director fees during this fiscal year. The other salary accruals as of March 31, 2010 are \$76,616 compared to \$64,616 for March 31, 2009.

**Note 8 - Commitments and Contingencies**

Reference is made to Notes 2, 4, 5, 6, 7, 10, 11, 12, and 15.

***Environmental Compliance***

Based upon current knowledge, the Company believes that it is in compliance with the U.S. and El Salvadoran environmental laws and regulations as currently promulgated. However, the exact nature of environmental control problems, if any, which the Company may encounter in the future cannot be predicted, primarily because of the increasing number, complexity and changing character of environmental requirements that may be enacted or of the standards being promulgated by governmental authorities. The Company has filed a lawsuit with the El Salvadoran Court of Administrative Litigation of the Supreme Court of Justice. Reference is made to Exhibit 10.20 of the Company's Form 10-K/A for its fiscal year ended March 31, 2007, for a copy of such filing. These legal proceedings are pending.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 8 - Commitments and Contingencies (Continued)**

***Environmental Guarantees***

In connection with the issuance of environmental permits, the Company has provided the Government of El Salvador with the following guarantees on March 15, 2006: three-year guarantees expiring on March 15, 2009 were issued by Seguros del Pacifico, S.A., an El Salvadoran insurance company, on behalf of the Company to the Ministry of Environment and Natural Resources for the Renewed SSGM Exploitation Concession.

In connection with the Renewed SSGM Exploitation Concession, on February 17, 2006, a three-year, third-party liability guarantee (bond) expiring on February 17, 2009 in the sum of \$42,857.14 was issued by Seguros del Pacifico, S.A. on behalf of the Company as required to the Ministry of Economy's Office of the Department of Hydrocarbons and Mines.

The El Salvadoran Environmental Law, Decree No. 233, 1998 and the General Regulation of the Environmental Law specify the following:

- An environmental permit from the Ministry of Environment and Natural Resources (MARN) based on the approval of an Environmental Impact Assessment, is required for exploitation and industrial processing of minerals and fossil fuels;
- The environmental permit requires the Company to implement prevention, minimization or compensation measures established in the environmental management program, which is a component of the Environmental Impact Assessment;
- A financial security (bond) is required that covers the total cost of the facilities or investment required to comply with the environmental management plans included in the Environmental Impact Assessment.

Numeric standards for ambient air quality; emissions from fixed sources; maximum environmental noise levels; water quality and effluent limits are specified in various norms and regulation, including the Special Regulation of Technical Norms for Environmental Quality Decree No. 40, and the Special Regulations of Wastewater Decree No. 39.

The El Salvadoran Department of Hydrocarbons and Mines (DHM) requires environmental permits to be issued in connection with the application of the Renewed SSGM. The issuance of these permits is under the jurisdiction of the El Salvador Ministry of Environment and Natural Resources Office (MARN). On October 15, 2002, MARN issued an environmental permit under Resolution 474-2002 for the SCMP. On October 20, 2002, MARN issued an environmental permit under Resolution 493-2002 for the Renewed SSGM Exploitation area, which on March 15, 2006, was renewed for a three-year period expiring March 15, 2009.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 8 - Commitments and Contingencies (Continued)**

On or about September 18, 2006, without any prior notice, the El Salvador Minister of Environment's office delivered to Commerce's El Salvadoran legal counsel, its revocation of its San Sebastian Gold Mine Exploitation environmental permit which was the only permit of its kind issued in the Republic of El Salvador. The Company's El Salvadoran legal counsel after reviewing the two letters (one for the SSGM and the other for the SCMP) concluded that the revocation of these permits was arbitrary, illegal and unconstitutional and he so stated in his September 20, 2006 letter to the Minister of Environment's office; a second letter was submitted by our legal counsel as the Minister of Environment's office requested a response to the first letter. The Company has filed a lawsuit with the El Salvadoran Court of Administrative Litigation of the Supreme Court of Justice stating that the Ministry of Environment has not provided any prior notice, has not provided a right to a hearing and the right of due process, based its opinion on misguided assertions, and contrary to El Salvadoran law. In addition, the Company's legal counsel stated that there is a lack of legal foundation for the sanctions and excess authority exercised by MARN. Reference is made to Exhibit 10.20 of the Company's Form 10-K/A for its fiscal year ended March 31, 2007, for a copy of such filing. These legal proceedings are pending.

***Lease Commitments***

The month-to-month lease of its offices is described in Note (7) Related Party Transactions of the Notes to the Consolidated Financial Statements. Other mining leases are described in Note (4) Commerce/Sanseb Joint Venture ("Joint Venture") and in Note (5) Synopsis of Real Estate Ownership and Leases of the Notes to the Consolidated Financial Statements.

***Confirmation Agreements with Related Parties***

The Company, with Directors' approval, as of the end of each fiscal year, enters into confirmation agreements with Edward L. Machulak, as an individual, and not as a Director or Officer of the Company, the Edward L. Machulak Rollover Individual Retirement Account, (Edward L. Machulak's Widow Sylvia Machulak will now act on his behalf), General Lumber & Supply Co., Inc., and Sylvia Machulak as an individual and for the Sylvia Machulak Rollover Individual Retirement Account, John E. and Susan R. Machulak, Edward A. Machulak and Circular Marketing, Inc. to acknowledge the amount due, the collateral pledged, and other pertinent facts and understandings between the parties as of the fiscal year end. These agreements are filed annually as exhibits to the SEC Form 10-K.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 8 - Commitments and Contingencies (Continued)**

***Intercompany Transactions and Other Transactions***

In addition to the transactions between the Company and General Lumber, and certain individuals who also are Directors and Officers of the Company and between the Company and its Officers, Directors and affiliates, the Company has and continues to have transactions with its subsidiaries, San Luis Estates, Inc., Universal Developers, Inc., Homespan Realty Co., Inc., Ecomm Group Inc., San Sebastian Gold Mines, Inc., Mineral San Sebastian S.A. de C.V., and substantial transactions with the Commerce/Sanseb Joint Venture.

The Company advances funds, allocates expenses, and charges for disbursements made to the Joint Venture.

The Company has adopted a policy to maintain a separate accounting of the amount due to it from Sanseb and the Joint Venture. This independent accounting will be maintained by the Company to reflect its investment and the amount due to it. This record will become the official document for future Joint Venture cash distributions. All of the advances and interest earned will be paid to the Company before the distribution to others of any of the Joint Venture's profits or cash flow.

The Company maintains a separate accounting for the funds or credits advanced to the Joint Venture and for the interest charged which is at the prime rate quoted on the first business day of each month plus four percent and said interest is payable monthly. These advances, together with interest, are to be paid to the Company prior to the distribution of any of the Joint Venture profits, and are reflected as follows:

**Company Net Advances to the Joint Venture during the fiscal year ended March 31, 2010**

	<u>Total Advances</u>	<u>Interest Charges</u>
Beginning balance	\$78,235,144	\$57,903,982
Advances during fiscal year ended March 31, 2010	<u>6,352,549</u>	<u>5,880,054</u>
Total Company's net advances	84,587,693	63,784,036
Advances by three of the Company's subsidiaries	<u>590,265</u>	<u>0</u>
Total net advances as of March 31, 2010	\$85,177,958	\$63,784,036

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 9 - Income Taxes**

At March 31, 2010, the Company and its subsidiaries, excluding the Joint Venture, have estimated net operating losses remaining in a sum of approximately \$19,765,393, which may be carried forward to offset future taxable income; the net operating losses expire at various times up until the year 2024.

The Financial Accounting Standards Board (FASB) has issued ASC 740-10 which clarifies the accounting for uncertainty in income taxes recognized in an enterprise's financial statements. ASC 740-10 requires a company to determine whether it is more likely than not that a tax position will be sustained upon examination based upon the technical merits of the position. If the more-likely-than-not threshold is met, a company must measure the tax position to determine the amount to recognize in the financial statements. As a result of the implementation of ASC 740-10, the Company performed a review of its material tax positions. At the adoption date of January 1, 2007, the Company had no unrecognized tax benefit which would affect the effective tax rate. As of March 31, 2010, the Company had no accrued interest and penalties related to uncertain tax positions.

Income taxes are provided for the tax effects of transactions reported in the financial statements and consist of taxes currently due plus deferred taxes. Deferred taxes are provided on a liability method whereby deferred tax assets are recognized for deductible temporary differences and operating loss, tax credit carry-forwards, and deferred tax liabilities are recognized for taxable temporary differences. Temporary differences are the differences between the reported amounts of assets and liabilities and their tax bases. Deferred tax assets are reduced by a valuation allowance when, in the opinion of management, it is more likely than not that some portion or all of the deferred tax will not be realized. Deferred tax assets and liabilities are adjusted for the effects of changes in tax laws and rates on the date of enactment.

		<u>March 31</u>		
Deferred Tax Assets:	<u>2010</u>	<u>Rate</u>	<u>2009</u>	<u>Rate</u>
Net Operating Loss Carry-forwards	\$ 6,720,234	34%	\$ 5,484,951	34%
Valuation Allowance for Deferred Tax Assets	<u>(6,720,234)</u>	<u>(34%)</u>	<u>(5,484,951)</u>	<u>(34%)</u>
Net Deferred Tax Assets:	\$ 0	0	\$ 0	0

The components of current income tax expense as of March 31, 2010, 2009 and 2008 respectively are as follows:

	<u>As of March 31</u>	
	<u>2010</u>	<u>2009</u>
Current federal tax expense	\$ 0	\$ 0
Current state tax expense	\$ 0	\$ 0
Change in NOL benefits	\$(1,235,283)	\$(1,022,828)
Change in valuation allowance	\$ 1,235,283	\$ 1,022,828
Income tax expense	\$ 0	\$ 0

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 10 - Description of Securities**

***a. Common Stock***

The Company's Wisconsin Certificate of Incorporation effective as of April 1, 1999 authorizes the issuance of 50,000,000 shares of common stock, \$0.10 par value per share of which 30,750,869 and 30,750,869 shares were issued and outstanding as of March 31, 2010 and 2009. Holders of shares of common stock are entitled to one vote for each share on all matters to be voted on by the shareholders. Holders of common stock have no cumulative voting rights. Holders of shares of common stock are entitled to share ratably in dividends, if any, as may be declared, from time to time by the Board of Directors in its discretion, from funds legally available therefore. In the event of a liquidation, dissolution or winding up of the Company, the holders of shares of common stock are entitled to share pro rata all assets remaining after payment in full of all liabilities. Holders of common stock have no preemptive rights to purchase the Company's common stock. There are no conversion rights or redemption or sinking fund provisions with respect to the common stock. All of the issued and outstanding shares of common stock are validly issued, fully paid and non-assessable.

During the fiscal year ended March 31, 2008, a total of 2,937,273 of the Company's common shares were issued as follows: 2,005,000 shares were issued to unrelated parties for total cash sales of \$230,500; 139,773 shares were issued to related parties to satisfy \$30,750 of debt for director fees, officer salaries, services and employee compensation; 30,000 shares were issued to an unrelated party to satisfy \$3,000 in debt; and 762,500 shares were issued to related parties in cancellation of \$167,750 for accrued salaries.

During the fiscal year ended March 31, 2009, a total of 35,000 of the Company's common shares were issued to an unrelated party to satisfy \$3,500 in debt.

There were no Company common shares issued during the fiscal year ended March 31, 2010.

***b. Preferred Stock***

There were no preferred shares issued and outstanding for the periods ending March 31, 2010 or 2009.

The Company's Wisconsin Certificate of Incorporation authorizes the issuance of 250,000 shares of preferred stock, \$0.10 par value.

The preferred shares are issuable in one or more series. If issued, the Board of Directors is authorized to fix or alter the dividend rate, conversion rights (if any), voting rights, rights and terms of redemption (including any sinking fund provisions), redemption price or prices, liquidation preferences and number of shares constituting any wholly unissued series of preferred shares.

***c. Stock option activity:***

There were no stock options issued or outstanding for the periods ending March 31, 2010 or 2009.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 10 - Description of Securities (Continued)**

***d. Stock Rights - To The Late President***

Reference is made to Note 7, Related Party Transactions, of the Company's financial statements which disclose the terms and conditions of the share loans to the Company by the late President and the interest which is payable to him by the Company's issuance of its restricted common shares.

Any share interest payable to the late President is for shares loaned to the Company and/or for such shares loaned or pledged for collateral purposes, or for unpaid interest, from time to time, all in accordance with the terms and conditions of Director-approved, open-ended loan agreements dated June 20, 1988, October 14, 1988, May 17, 1989 and April 1, 1990.

***e. Share Loans - Others***

A series of borrowings of the Company's common shares were made from time to time under the provision that the owners would sell said shares as the Company's designee, with the proceeds payable to the Company. In exchange, the Company agreed to pay these shares loaned within 31 days or less by issuing its restricted common shares, together with interest payable in restricted common shares payable at a negotiated rate of interest normally payable in advance for a period of one year. As of March 31, 2010, there were no shares due to other parties for shares borrowed or for interest payment on the borrowed shares.

***f. S.E.C. Form S-8 Registration***

On June 7, 2006, the Company declared effective its sixth Securities and Exchange Commission Form S-8 Registration Statement No. 333-134805 under the Securities Act of 1933, as amended, and registered 3,000,000 of the Company's \$0.10 par value common shares for the purpose of distributing shares pursuant to the plan contained in such registration. A total of 35,000 of these shares were issued during the fiscal year ending March 31, 2009 and no shares were issued during this fiscal year, leaving a balance of 925,147 unissued Form S-8 common shares.

***g. Commerce Group Corp. Employee Benefit Account (CGCEBA)***

This account was established for the purpose of compensating the Company's employees for benefits such as retirement, severance pay, and all other related compensation that is mandatory under El Salvadoran labor regulations, and/or as determined by the Officers of the Corporation. The Directors provide the Officers of the Company with the authority to issue its common shares to the CGCEBA on an as needed basis. Under this plan, payment can be made to any employee of the Company or the Company's subsidiaries. The CGCEBA has sold some of the shares issued to the CGCEBA from time to time during this fiscal year to meet its obligations primarily to its El Salvadoran employees. As of April 1, 2008, 800,000 common shares remained in the account. During this fiscal period no shares were added and no shares were sold, leaving a balance of 800,000 common shares as of March 31, 2010.



**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 11 - Litigation**

There is no pending litigation in the United States. However, in the Republic of El Salvador, Central America, the Company's El Salvadoran legal counsel on December 6, 2006, filed a complaint with the El Salvadoran Supreme Court Administrative Division claiming that the El Salvadoran Office of the Ministry of Environment and Natural Resources (MARN) has revoked two of its El Salvadoran environmental permits for mining exploitation, without any prior notice, without a right to a hearing and the right of due process, based on misguided assertions, and contrary to El Salvadoran law. In addition, the Company's legal counsel stated that there is a lack of legal foundation for the sanctions and excess authority exercised by MARN. Reference is made to Exhibit 10.20 of the Company's Form 10-K/A for its fiscal year ended March 31, 2007, for an English translation of that complaint. Also, in October 2008 the Directorate of Mines notified the Company that it was not honoring the Company's previous request for an extension of the exploration permits at the San Sebastian and Nueva Esparta areas. The Company believes this notice is unwarranted and an appeal is pending.

On March 18, 2009, the Company filed a Securities and Exchange Commission Form 8-K disclosing that the Company and San Sebastian Gold Mines, Inc. delivered a Notice of Intent to commence international arbitration proceedings against the Government of El Salvador under the Central America Free Trade Agreement-Dominican Republic (CAFTA-DR). The Company contends that the Government of El Salvador frustrated its effort to develop its mining interests in the country of El Salvador in violation of CAFTA-DR. The parties had 90 days to resolve their dispute amicably, after which the Company had the right to commence arbitration proceedings against the Government of El Salvador to claim significant monetary damages. Since the Company received no response to the Notice of Intent, on July 2, 2009 it submitted to the International Centre for Settlement of Investment Disputes (ICSID) a notice of arbitration to commence international arbitration proceedings against the Government of El Salvador under CAFTA-DR. The request for arbitration was registered with the ICSID on August 21, 2009. On July 1, 2010 the Company received notice from the ICSID that the three nominations for arbitrators in the Company's action under CAFTA-DR have all accepted their appointments. As a result, the Arbitral Tribunal was therefore deemed under ICSID Arbitration Rule 6 to have been constituted.

There has been no amount accrued for litigation as of March 31, 2010 or March 31, 2009.

**Note 12 - Certain Concentrations and Concentrations of Credit Risk**

The Company is subject to concentrations of credit risk in connection with maintaining its cash primarily in three financial institutions for the amounts in excess of levels. Two are insured by the U.S. Federal Deposit Insurance Corporation. The other is an El Salvadoran banking institution, which the Company uses to pay its El Salvadoran obligations. The Company considers the U.S. institutions to be financially strong. It does not consider the underlying risk at this time with its El Salvadoran bank to be significant, although, there is a concentration of credit risk related to all operations taking place in a foreign jurisdiction whose laws are different from those in the U.S. Also, the civil and economic factors of El Salvador are different. To date, these concentrations of credit risk have not had a significant effect on the Company's financial position or results of operations.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 12 - Certain Concentrations and Concentrations of Credit Risk (Continued)**

The Company is not subject to credit risk in connection with any hedging activities as it has never hedged any of its gold production. If the Company changes its policies, then it will only use highly-rated credit worthy counterparties, therefore it should not anticipate non-performance.

When in production the Company sold its gold and silver to one customer. Given the marketability and liquidity of the precious metals being sold and because of the large pool of qualified buyers for gold and silver the Company believes that the loss of its customer could be quickly replaced without any adverse affect.

**Note 13 - Business Segments**

The FASB ASC 280-10(formerly Statement of Financial Accounting Standards No. 131 (SFAS 131), Disclosures about Segments of an Enterprise and Related Information) became effective for fiscal years beginning after December 15, 1997. FASB ASC 280-10 establishes standards for the way that public business enterprises determine operating segments and report information about those segments in annual financial statements. FASB ASC 280-10 also requires those enterprises to report selected information about operating segments in interim financial reports issued to shareholders. FASB ASC 280-10 further establishes standards for related disclosure about products and services, geographic areas, and major customers.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**Note 13 - Business Segments (Continued)**

The Company presently has two reportable segments: mining and other. The mining segment was engaged in the exploitation and exploration of precious metals. The other segments are those activities that are combined for reporting purposes.

Its major customer for the refining and purchase of gold is a refinery located in the United States. The price of gold is dependent on the world market price over which the Company, the refinery or any other single competitor do not have control.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**- Going Concern**

ompanying consolidated financial statements have been prepared assuming that the Company will continue as a going concern. The Company has recurring net losses, negative working capital and negative cash flow from operations, and is dependent upon raising capital to continue operations. The Company's ability to continue as a going concern is subject to its ability to generate a profit and/or obtain necessary funding from outside sources, including obtaining additional funding from the sale of its securities, increasing sales or obtaining loans and grants from various financial institutions where possible. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

he past five years, the Company and its shareholders and officers have been able to provide the capital necessary to continue the operations of the Company, the maintenance of the mine and related equipment, and perform limited exploration on its exploration license areas. However, there is no guarantee that the Company can continue to provide the required capital and to keep the Company's assets maintained. If the Company were unable to raise sufficient funds, the Company would be unable to pay its employees in El Salvador, which could result in loss of assets or impairment thereof. The financial statements do not include any adjustments that might result from the outcome of this uncertainty.

ment is also entertaining joint venture opportunities, and other financing in order to generate sufficient capital to begin the open-pit, heap-leaching operation at the San Sebastian Gold Mine, if permitted by the Government of El Salvador. The substantial increase in the price of gold should increase investors' interest.

fiscal year ended March 31, 2009, the Company performed an impairment test over long-lived assets including mining resources and property, plant and equipment. Testing for impairment of long-lived assets requires significant management judgment regarding future cash flows, asset lives, and discount rates. The Company considered a number of factors including the cancellation of its permits by the Government of El Salvador, the fact that there has been no resolution of the Company's legal challenges to this action initiated in El Salvador, the unwillingness of the El Salvadoran Government to engage in any discussions after the Company gave notice of its intent to file for arbitration under CAFTA-DR on March 17, 2009 (and consequently, the need to file for arbitration before the International Centre for Settlement of Investment Disputes (ICSID) on July 2, 2009), and public statements made by members of the Government of El Salvador elected in March 2009.

ll of these factors and events, the Company determined that its assets have been impaired and the Company has made significant adjustments to account for impairment. A pre-tax charge of \$21,213,950 was recognized in the fourth quarter ending March 31, 2009, fully impairing the mining resource assets. Additionally, a pre-tax charge of \$4,835,353 was recognized in the fourth quarter ending March 31, 2009, related to impairment of plant and equipment. The Company did not impair the plant and equipment for the amount of \$116,324 during the fourth quarter ending March 31, 2009 because it believed that it would be fully recoverable. During the fiscal year ended March 31, 2010, \$40,002 was recovered and the remaining balance of \$76,322 represents the cost of land that management believes is fully recoverable.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**- Recent Accounting Pronouncements**

ry 2010, the FASB issued Accounting Standards Update 2010-02, Consolidation (Topic 810): Accounting and Reporting for Decreases in Ownership of a Subsidiary. This amendment to Topic 810 clarifies, but does not change, the scope of current US GAAP. It clarifies the decrease in ownership provisions of Subtopic 810-10 and removes the potential conflict between guidance in that Subtopic and asset derecognition and gain or loss recognition guidance that may exist in other US GAAP. An entity will be required to follow the amended guidance beginning in the period that it first adopts FAS 160 (now included in Subtopic 810-10). For those entities that have already adopted FAS 160, the amendments are effective at the beginning of the first interim or annual reporting period ending on or after December 15, 2009. The amendments should be applied retrospectively to the first period that an entity adopted FAS 160. The Company does not expect the provisions of ASU 2010-02 to have a material effect on the financial position, results of operations or cash flows of the Company.

ry 2010, the FASB issued Accounting Standards Update 2010-01, Equity (Topic 505): Accounting for Distributions to Shareholders with Components of Stock and Cash (A Consensus of the FASB Emerging Issues Task Force). This amendment to Topic 505 clarifies the stock portion of a distribution to shareholders that allows them to elect to receive cash or stock with a limit on the amount of cash that will be distributed is not a stock dividend for purposes of applying Topics 505 and 260. Effective for interim and annual periods ending on or after December 15, 2009, and would be applied on a retrospective basis. The Company does not expect the provisions of ASU 2010-01 to have a material effect on the financial position, results of operations or cash flows of the Company.

mber 2009, the FASB issued Accounting Standards Update 2009-17, Consolidations (Topic 810): Improvements to Financial Reporting by Enterprises Involved with Variable Interest Entities. This Accounting Standards Update amends the FASB Accounting Standards Codification for Statement 167. (See FAS 167 effective date below.)

mber 2009, the FASB issued Accounting Standards Update 2009-16, Transfers and Servicing (Topic 860): Accounting for Transfers of Financial Assets. This Accounting Standards Update amends the FASB Accounting Standards Codification for Statement 166. (See FAS 166 effective date below)

er 2009, the FASB issued Accounting Standards Update 2009-15, Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance or Other Financing. This Accounting Standards Update amends the FASB Accounting Standard Codification for EITF 09-1. (See EITF 09-1 effective date below.)

er 2009, the FASB issued Accounting Standards Update 2009-14, Software (Topic 985): Certain Revenue Arrangements That Include Software Elements. This update changed the accounting model for revenue arrangements that include both tangible products and software elements. Effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company does not expect the provisions of ASU 2009-14 to have a material effect on the financial position, results of operations or cash flows of the Company.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**- Recent Accounting Pronouncements (Continued)**

er 2009, the FASB issued Accounting Standards Update 2009-13, Revenue Recognition (Topic 605): Multiple-Deliverable Revenue Arrangements. This update addressed the accounting for multiple-deliverable arrangements to enable vendors to account for products or services (deliverables) separately rather than a combined unit and will be separated in more circumstances than under existing US GAAP. This amendment has eliminated that residual method of allocation. Effective prospectively for revenue arrangements entered into or materially modified in fiscal years beginning on or after June 15, 2010. Early adoption is permitted. The Company does not expect the provisions of ASU 2009-13 to have a material effect on the financial position, results of operations or cash flows of the Company.

mber 2009, the FASB issued Accounting Standards Update 2009-12, Fair Value Measurements and Disclosures (Topic 820): Investments in Certain Entities That Calculate Net Asset Value per Share (or Its Equivalent). This update provides amendments to Topic 820 for the fair value measurement of investments in certain entities that calculate net asset value per share (or its equivalent). It is effective for interim and annual periods ending after December 15, 2009. Early application is permitted in financial statements for earlier interim and annual periods that have not been issued. The Company does not expect the provisions of ASU 2009-12 to have a material effect on the financial position, results of operations or cash flows of the Company.

2009, the FASB ratified the consensus reached by EITF (Emerging Issues Task Force) issued EITF No. 09-1, (ASC Topic 470) "Accounting for Own-Share Lending Arrangements in Contemplation of Convertible Debt Issuance" ("EITF 09-1"). The provisions of EITF 09-1, clarifies the accounting treatment and disclosure of share-lending arrangements that are classified as equity in the financial statements of the share lender. An example of a share-lending arrangement is an agreement between the Company (share lender) and an investment bank (share borrower) which allows the investment bank to use the loaned shares to enter into equity derivative contracts with investors. EITF 09-1 is effective for fiscal years that beginning on or after December 15, 2009 and requires retrospective application for all arrangements outstanding as of the beginning of fiscal years beginning on or after December 15, 2009. Share-lending arrangements that have been terminated as a result of counterparty default prior to December 15, 2009, but for which the entity has not reached a final settlement as of December 15, 2009 are within the scope. Effective for share-lending arrangements entered into on or after the beginning of the first reporting period that begins on or after June 15, 2009. The Company does not expect the provisions of EITF 09-1 to have a material effect on the financial position, results of operations or cash flows of the Company.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**- Recent Accounting Pronouncements (Continued)**

2009, FASB issued ASC 105-10 (Prior authoritative literature: SFAS No. 168, "*The FASB Accounting Standards Codification TM and the Hierarchy of Generally Accepted Accounting Principles - a replacement of FASB Statement No. 162*"). FASB ASC 105-10 establishes the FASB Accounting Standards Codification TM (Codification) as the source of authoritative accounting principles recognized by the FASB to be applied by nongovernmental entities in the preparation of financial statements in conformity with GAAP. FASB ASC 105-10 is effective for financial statements issued for fiscal years and interim periods ending after September 15, 2009. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ending December 31, 2009. Adoption of FASB ASC 105-10 did not have a material effect on the Company's financial statements.

2009, the FASB issued FASB ASC 810-10-65 (Prior authoritative literature: SFAS No. 167, "*Amendments to FASB Interpretation No. 46(R)*") which amends the consolidation guidance applicable to a variable interest entity ("VIE"). This standard also amends the guidance governing the determination of whether an enterprise is the primary beneficiary of a VIE, and is therefore required to consolidate an entity, by requiring a qualitative analysis rather than a quantitative analysis. Previously, the standard required reconsideration of whether an enterprise was the primary beneficiary of a VIE only when specific events had occurred. This standard is effective for fiscal years beginning after November 15, 2009, and for interim periods within those fiscal years. Early adoption is prohibited. Adoption of FASB ASC 810-10-65 did not have a material impact on the Company's financial statements.

2009, the FASB ASC 860-10 (Prior authoritative literature: issued SFAS No. 166, "*Accounting for Transfers of Financial Assets, an Amendment of FASB Statement No. 140*"), which eliminates the concept of a qualifying special-purpose entity ("QSPE"), clarifies and amends the de-recognition criteria for a transfer to be accounted for as a sale, amends and clarifies the unit of account eligible for sale accounting and requires that a transferor initially measure at fair value and recognize all assets obtained and liabilities incurred as a result of a transfer of an entire financial asset or group of financial assets accounted for as a sale. This standard is effective for fiscal years beginning after November 15, 2009. Adoption of FASB ASC 860-10 did not have a material impact on the Company's financial statements.

2009, FASB issued FASB ASC 855-10 (Prior authoritative literature: SFAS No. 165, "*Subsequent Events*"). FASB ASC 855-10 establishes principles and requirements for the reporting of events or transactions that occur after the balance sheet date, but before financial statements are issued or are available to be issued. FASB ASC 855-10 is effective for financial statements issued for fiscal years and interim periods ending after June 15, 2009. As such, the Company adopted these provisions at the beginning of the interim period ended June 30, 2009.

**COMMERCE GROUP CORP. AND SUBSIDIARIES**  
**Notes to the Consolidated Financial Statements (Continued)**  
**March 31, 2010**

**- Recent Accounting Pronouncements (Continued)**

2009, the FASB issued FASB ASC 810-10-65 (Prior authoritative literature: SFAS No. 164, "*Not-for-Profit Entities: Mergers and Acquisitions*") which governs the information that a not-for-profit entity should provide in its financial reports about a combination with one or more other not-for-profit entities, businesses or nonprofit activities and sets out the principles and requirements for how a not-for-profit entity should determine whether a combination is in fact a merger or an acquisition. This standard is effective for mergers occurring on or after Dec. 15, 2009 and for acquisitions where the acquisition date is on or after the beginning of the first annual reporting period, beginning on or after Dec. 15, 2009. This standard does not apply to the Company since the Company is considered a for-profit entity

2008, the FASB issued FASB ASC 944 (Prior authoritative literature: SFAS No. 163, "*Accounting for Financial Guarantee Insurance Contracts - an interpretation of FASB Statement No. 60*"). FASB ASC 944 interprets Statement 60 and amends existing accounting pronouncements to clarify their application to the financial guarantee insurance contracts included within the scope of that Statement. This standard is effective for financial statements issued for fiscal years beginning after December 15, 2008, and all interim periods within those fiscal years. As such, the Company is required to adopt these provisions at the beginning of the fiscal year ended December 31, 2009. The Company does not believe this standard will have any impact on the financial statements.



## **Changes in and Disagreements with Accountants on Accounting and Financial Disclosure**

### **a). Controls and Procedures**

#### **on Controls and Procedures**

ied out an evaluation, under the supervision and with the participation of our management, including our chief executive officer and our chief financial officer, of the effectiveness of the design and operation of our disclosure controls and procedures as of the end of the period covered by this report. The evaluation was undertaken in consultation with our accounting personnel. Based on that evaluation, our chief executive officer and our chief financial officer concluded that our disclosure controls and procedures are effective to ensure that information required to be disclosed by us in the reports that we file or submit under the Securities Exchange Act of 1934 is recorded, processed, summarized and reported within the time periods specified in the Securities and Exchange Commission's rules and forms.

#### **on Internal Control over Financial Reporting**

of executive officer and our chief financial officer are responsible for establishing and maintaining adequate internal control over financial reporting. Internal control over financial reporting is defined in Rule 13a-15(f) and 15d-15(f) promulgated under the Securities Exchange Act of 1934 as a process designed by, or under the supervision of, our principal executive and principal financial officers and effected by our board of directors, management and other personnel, to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with generally accepted accounting principles and includes those policies and procedures that:

Because of its inherent limitations, our internal control over financial reporting may not prevent or detect misstatements. Therefore, even those systems determined to be effective can provide only reasonable assurance with respect to financial statement preparation and presentation. Projections of any evaluation of effectiveness to future periods are subject to the risk that controls may become inadequate because of changes in conditions, or that the degree of compliance with the policies or procedures may deteriorate.

Our chief executive officer and our chief financial officer assessed the effectiveness of our internal control over financial reporting as of March 31, 2010. In making this assessment, management used the criteria set forth by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) in *Internal Control—Integrated Framework*.

Based on our assessment, our chief executive officer and our chief financial officer believe that, as of March 31, 2010, our internal control over financial reporting was not effective as of the evaluation date due to the factors stated below.

Management assessed the effectiveness of the Company's internal control over financial reporting as of evaluation date and identified the following material weaknesses:

**INSUFFICIENT RESOURCES:** We have an inadequate number of personnel with requisite expertise in the key functional areas of finance and accounting.

**INADEQUATE SEGREGATION OF DUTIES:** We have an inadequate number of personnel to properly implement control procedures.

Management is committed to improving its internal controls and will (1) continue to use third party specialists to address shortfalls in staffing and to assist the Company with accounting and finance responsibilities and (2) increase the frequency of independent reconciliations of significant accounts which will mitigate the lack of segregation of duties until there are sufficient personnel.

Management, including our president, has discussed the material weakness noted above with our independent registered public accounting firm. Due to the nature of this material weakness, there is a more than remote likelihood that misstatements which could be material to the annual or interim financial statements could occur that would not be prevented or detected.

This report does not include an attestation report of our registered public accounting firm regarding internal control over financial reporting. Management's report was not subject to attestation by our registered public accounting firm pursuant to temporary rules of the Securities and Exchange Commission that permit us to provide only management's report in this report.

#### **Changes in Internal Control over Financial Reporting**

There have been no changes in our internal control over financial reporting (as such term is defined in Rules 13a-15(f) and 15d-15 (f) under the Exchange Act) during the fourth quarter of the last fiscal year that have materially affected, or are reasonably likely to materially affect, our internal control over financial reporting.

#### **Item 9(b). Other Information**

None.

## PART III

### **Item 10. Directors and Executive Officers of the Registrant and Corporate Governance**

#### **Executive Officers and Managers of the Company**

Listed below are the names, ages and positions of the executive officers and managers of the Company and their business experience during the past five or more years. All officers were elected at an annual meeting of the directors.

- (1) There have never been any undisclosed arrangements or understandings between any Executive Officer and any other person pursuant to which any Executive Officer was elected as an Executive Officer.
- (2) Executive Officers are elected by the Directors for a term expiring at the Directors' Annual Meeting and/or hold such positions until their successors have been elected and have qualified.

#### **Family Relationships**

Edward A. Machulak, presently a Director, Member of the Directors' Executive Committee, Director-Emeritus, President and Chief Executive Officer is the brother of the legal counsel for the Company, Attorney John E. Machulak of the law firm of Machulak, Robertson & Sodos, S.C.

#### **Directors, Officers' and Key Management's Experience**

Following is a listing of the members of the Company's Board of Directors, Officers and Key Management as of March 31, 2010, along with their respective ages and descriptions of their professional experience.

**John H. Curry**, age 69, has been a Class II Director since October 18, 2002. On May 10, 2004 he became a non-independent member of the Audit, Compensation, Corporate Governance and Nominating Committees. He was elected as Executive Vice President and as a Member of the Executive Committee on October 26, 2007. Mr. Curry is an economist and was an economic advisor to the U.S. Government during more than 23 years in the Foreign Service working in U.S. Embassies abroad. He has broad financial and management executive skills in the public and private sector with knowledge and experience in dealing with international financial organizations. He has extensive experience with foreign governments, including international economic policy and trade relations, as well as familiarity with energy and mining markets, and has the ability to operate effectively in foreign cultures. He qualifies as an audit committee financial expert.

On January 2, 2010, Mr. Curry started working as Administrator and CFO with Universal Health Staffing Services and AD Blessing Rehab. He and his wife Patricia are shareholders. He continues to assist during evenings at home with International Sales for Reyes Family Cigars where he worked from 2003 to 2009. From 1993 to February 2003, he was the Assistant Director of Marketing and Chief Economist for Watanabe and Associates, Inc. and related firms CKC and KSK. On a part-time basis, he worked from December 2000 to December 2003 as an analyst and writer on international trade and economics for the website of the Summit of the Americas Center at Florida International University. From 1989 to 1993 he was employed by AmeriSecurities Corp., Continental Sales Company and Latine-Europe Corporation performing securities sales and marketing in Latin America and the Caribbean. From 1966 to 1989 he was employed by the U.S. Department of State - Foreign Service in various capacities, but primarily as an Economic Counselor for the U.S. Embassies in Mexico, Tunisia, Bolivia, Nicaragua, Costa Rica, El Salvador and Portugal. He then retired from the service.

He earned a Master of Arts in Applied Economics from the University of Michigan and a Bachelor of Arts in International Studies from Ohio State University. He also completed graduate courses in economics at the University of Detroit and accounting courses at Wayne State University, as well as many short courses with the Foreign Service Institute, Department of State, Washington, D.C. He is fluent in Spanish and has a working knowledge of Portuguese.

**Edward A. Machulak**, age 58, (Chairman and President) has been a Class II Director since October 28, 1985, and he was elected as a member of the Directors' Executive Committee on March 11, 1991. On May 10, 2004, he became a non-independent member of the Audit, Compensation, Corporate Governance and Nominating Committees. He also qualifies as a Director Emeritus. Following the death of the late Chairman and President Edward L. Machulak, Edward A. Machulak was appointed as Temporary Chairman until the Company's annual meeting scheduled for October 26, 2007. At the Board of Directors' Meeting which following the Annual Shareholders' Meeting, the Board of Directors appointed him as the Chairman, President and Chief Executive Officer of the Company. Prior to this appointment Mr. Edward A. Machulak served as the Executive Vice President since October 16, 1992 and as Secretary since January 12, 1987. He was the Assistant Secretary from April 15, 1986 through January 12, 1987. He is also a Director and President of: Homespan Realty Co., Inc., San Luis Estates, Inc., San Sebastian Gold Mines, Inc. and Universal Developers, Inc. He was a Director and Secretary of Ecomm Group Inc. from 1997 to May 16, 2000. On May 17, 2000 he was elected as a Director and President of Ecomm Group Inc. His business experience is as follows: Director and Corporate Secretary of General Lumber & Supply Co., Inc., a building material wholesale and retail distribution center from April 1, 1970 to November 1983; Director and President of Gamco, Inc., a marketing and advertising company, from November 1983 to present; Director and President of Circular Marketing, Inc., an advertising and marketing business, from March 1986 to present; Director and President of MacPak, Inc., an Internet developer, since September 26, 1996 to present; Director and President of Edjo, Ltd., a company involved in the development, subdividing and sale of land and real estate from June 7, 1973 to present; Director and President of Landpak, Inc., a corporation which owns, operates, manages and sells real estate from September 1985 to present; and he was involved in other corporate real estate ventures and business activities since 1976. Reference is made to the notes of the Executive Compensation Summary Compensation Table for more information.

**Sylvia Machulak**, age 78, was appointed as a Class I Director to fill one of two Director vacancies on August 20, 2008 and also serves as a non-independent member of the Audit, Compensation, Corporate Governance and Nominating Committees. She is the wife of Edward L. Machulak, the Company's long-time Chairman who died on October 21, 2007. She has acted as a consultant for the Company since 1962. Mrs. Machulak is also the current president of General Lumber & Supply Co., Inc., in Milwaukee, Wisconsin.

**Robert C. Skeen**, age 79, was appointed as a Class I Director to fill one of two Director vacancies on August 20, 2008 and also serves as a non-independent member of the Audit, Compensation, Corporate Governance and Nominating Committees. Mr. Skeen was a public works inspector for sewer and water construction in the City of Milwaukee for 28 years.

**Sidney Sodos**, age 72, has been a Class III Director since February 9, 1998. Since May 10, 2004, he has been a non-independent member of the Audit, Compensation, Corporate Governance and Nominating Committees. He was elected as Vice President and Treasurer and as a Member of the Executive Committee on October 26, 2007. Mr. Sodos was the senior member of the law firm of Sodos & Kafkas, S.C. and on July 1, 2003 he became a member of the law firm of Machulak, Robertson & Sodos, S.C. He is licensed and has practiced law in the federal and state courts in the State of Wisconsin for a period of more than 40 years. He specializes in corporate litigation and media law. He was the Executive Director of the American Federation of Television and Radio Artists in the States of Wisconsin and Illinois (1974-1981). He served as a member of the North Shore East Water Trust, a division of a local municipality. He also was a moderator of a radio program (WTMJ Milwaukee, Wisconsin) "The Law and Sometimes Justice."

### **Section 16(a) Beneficial Ownership Reporting Compliance**

Section 16(a) of the Securities Exchange Act of 1934 and related Securities and Exchange Commission rules require that directors, executive officers and beneficial owners of 10% or more of any class of equity securities report to the Securities and Exchange Commission changes in their beneficial ownership of the Company's Capital Stock and that any late filings be disclosed. Based solely on a review of the copies of such forms furnished to the Company, or representations that no Form 5 was required, the Company believes that there was compliance with all Section 16(a) filing requirements applicable to its officers, directors and greater than 10% beneficial owners during its fiscal year ended March 31, 2010.

### **Code of Business Conduct and Ethics**

The Company is committed to having sound corporate governance principles. Having such principles is essential to running the Company's business efficiently, however practicality must prevail in operating a small business. Presently, none of its directors qualify as being independent. Edward A. Machulak is an officer of the Company and Messrs. Sodos, Curry and Skeen and Mrs. Sylvia Machulak provide legal and consulting services. The directors believe that collectively due to many years of experience they are capable of providing advice and direction that is in the best interest of the shareholders.

The directors have a reputation for being transparent, dependable, honest and ethical in their many years of being in business. Historical information supports their disciplined conduct, experience, knowledge, fair, full and timely disclosures, their determination to comply with laws, rules and regulations, and accountability to respect the code of business conduct and ethics.

### **Board Meetings and Committees**

All of the directors, as of the date that they held office, attended 100% of each of the five scheduled meetings. The standing committee of the Board of Directors is composed of the following: Executive Committee, Edward A. Machulak; John H. Curry, Sidney Sodos, Sylvia Machulak and Robert C. Skeen, and the Audit Compensation, Corporate Governance and Nominating Committee consists of all of the directors.

### **Compensation of Directors**

In the past, the director's fees of \$1,200 for each meeting (excluding the President) were based on a minimum of four quarterly scheduled meetings held in February, May, August and November of each year. Following the death of the late President Edward L. Machulak on October 21, 2007, the directors found it necessary to reschedule their meeting dates and to meet as necessary at a fee of \$400 per meeting and \$1,200 per quarterly meeting. Effective April 1, 2009, the Directors agreed to accept \$600 for Director fees for any Director meeting held. Five meetings were held from April 1, 2009 through March 31, 2010. The fees, together with travel and out-of-pocket expenses, if any, are payable quarterly on the date of each quarterly scheduled meeting or if no quarterly meeting is held then such fees are payable on the second Monday of said month that the meeting was to be held. On January 1, 1981, the directors unanimously agreed by resolution that cash payment of directors' fees will be deferred until such time as the Company has adequate annual operating profits and a cash flow to make such payments. This resolution was reconfirmed on October 16, 1992. On September 16, 1994, at the Annual Directors' Meeting, the directors unanimously adopted a resolution that in lieu of cash payment of directors' fees, which are subject to the Company realizing a profit, and adequate cash flow, the directors have an option to exchange the amount due to them for the Company's common shares on or before the close of each fiscal year based on a formula determined by the directors. The directors, in order to have a vested interest in the Company, are encouraged to own the Company's common shares. The directors, at a regularly scheduled directors' meeting held on March 29, 2010, established the conversion price for these and other common shares to be issued to be based on the average closing bid price of the shares traded during a period of time beginning on December 1<sup>st</sup> through February 19, 2010, but not less than the par value of \$.10 per share. The average closing price during the 81-day period from December 1, 2009 through February 19, 2010 was \$.075 a share. Therefore, the par value of \$.10 per share was used in determining the number of shares issued for employee bonuses, consultants, and services rendered, and for other authorized purposes through the fiscal year ended March 31, 2010. During March 2010, all of the directors and officers agreed to accrue the amounts due to them for director fees and officer compensation. In addition, one director provided consulting services and agreed to accrue the sum due to him.

## **Code of Ethics**

The Company has adopted a Code of Business Conduct and Ethics (“Code”) applicable to its officers, directors, and employees, which includes the principal executive officer, principal financial officer and principal accounting officer. The Board has also adopted an additional Code of Ethics for the Chief Executive Officer and Senior Financial Officers. The purpose of the Code is to provide legal and ethical standards to deter wrongdoing and to promote:

1. Honest and ethical conduct;
2. Full, fair, accurate, timely and understandable disclosures;
3. Compliance with laws, rules, and regulations;
4. Prompt internal reporting of violations of the Code; and
5. Accountability for adherence to the Code.

## **Executive Committee**

The Executive Committee members are Messrs. Edward A. Machulak, John H. Curry and Sidney Sodos, and, as of August 20, 2008, Sylvia Machulak and Robert C. Skeen. The Executive Committee was formulated to provide the authority to act on behalf of the directors during such time when the directors are not in session; at this time, five directors are elected to this committee. The Executive Committee provides additional resources to assist management in making strategic decisions and consults with management on technical, tactical, organizational and administrative matters, acquisitions and dispositions, exploration targets, mergers and policies regarding the long-term growth of the Company. During this fiscal year, the Executive Committee met five times. The fee paid to a Director of the Executive Committee, (except the President), is \$600 for each meeting attended.

## **Audit Committee**

The Audit Committee of the Board of Directors was formed on February 9, 1998. Since May 10, 2004, none of the directors qualify as being independent and the Board decided that the entire Board may act on any matter pertaining to this committee. Messrs. John H. Curry and late President Edward L. Machulak qualified as Audit Committee financial experts as defined in Item 401(h) of Regulation S-K. Four Audit Committee meetings were held in this fiscal year. It meets before the regular, quarterly and/or annual directors’ meetings. There is no additional compensation paid for being a member of the Audit Committee. The directors firmly believe, despite the fact that they are classified as being non-independent, that collectively they are capable of providing advice and counsel that will be in the best interest of the shareholders. The Audit Committee reviews, acts on with respect to auditing performance and practices, risk management, financial and credit risks, accounting policies, internal control, tax matters, financial reporting and financial disclosure practices of the Company. The Audit Committee is responsible for reviewing and selecting the Company’s independent registered public accounting firm, reviewing the scope of the annual audit, pre-approving the nature of non-audit services, approving the fees to be paid to the independent registered public accounting firm, reviewing the performance of the Company’s independent registered public accounting firm, reviewing the accounting practices of the Company and other tasks as described in the Audit Committee’s Charter. The Audit Committee also recommends the choice of independent public accountants to be retained. The Audit Committee has the sole authority to retain and terminate the Company’s independent public accountants, approve all auditing services and related fees and the terms thereof and to pre-approve any non-audit services to be rendered by the Company’s independent accountants from Audit Committee meetings that were held during the fiscal year ended March 31, 2010. The Board approved Charter of the Audit Committee is available at <http://www.commercegroupcorp.com> or by writing to the Company, attention Investor Relations.

## **Compensation Committee**

The Compensation Committee consists of the entire Board of Directors. None are independent. The directors are responsible for establishing the total compensation for Executive Officers, including, but not limited to, salaries, bonuses, and all equity-based compensation, evaluating the performance of the Chief Executive Officer, for reviewing general plans of compensation and benefit programs for Company employees, for recommending director compensation, and for reviewing and approving bonus and other awards. The directors held one meeting during the Company's fiscal year. The Board approved Charter of the Compensation Committee is available at <http://www.commercegroupcorp.com> or by writing to the Company, attention Investor Relations. The contents of the Company's website are not incorporated into this filing.

## **Corporate Governance and Nominating Committee**

The Corporate Governance and Nominating Committee consists of the entire Board of Directors. The entire Board of Directors are responsible for the development of governance guidelines and practices for the effective operation of the Board in fulfilling its responsibilities; the review and assessment of the performance of the Board; and the nomination of prospective directors for the Company's Board of Directors and Board committee memberships. The Nominating Committee also selects and recommends the nominees to be elected as corporate officers by the Board of Directors. The Company regularly monitors developments in the areas of corporate governance. The Charter of the Corporate Governance and Nominating Committee is available at <http://www.commercegroupcorp.com> or by writing to the Company, attention Investor Relations.

During the Company's fiscal year ended March 31, 2010, the Board of Directors held five meetings, the Audit Committee held four meetings, the Compensation Committee held one meeting and the Corporate Governance and Nominating Committee held one meeting. All of the directors and the nominees, as of the date they held office, attended 100% of the board meetings and meetings of committees of which they are members.

## **Item 11. Executive Compensation**

### **Executive Compensation**

#### **Report of Compensation Committee**

The Compensation Committee, which consists of the entire Board of Directors, has furnished the following report on executive compensation for its fiscal year ended March 31, 2010.



The Company's executive compensation program is administered by all of the directors; presently Edward A. Machulak, Sidney Sodos, John H. Curry, Sylvia Machulak, and Robert C. Skeen. None of the directors are considered to be independent. During the fiscal year ended March 31, 2010, the directors have considered many factors such as business performance, cash preservation, Company goals, and any other components necessary to arrive at a just compensation for the Company's Officers. They also considered the needs of attracting, developing, rewarding and retaining highly qualified and productive individuals by providing them with attractive compensation awards. The directors want to ensure compensation levels that are externally competitive and internally equitable, therefore, the directors agreed to provide an encouraging executive stock ownership program to enhance a mutuality of interest with other shareholders. The directors are committed to a strong, positive link between the Company's achievement of its goals, taking into consideration its financial condition, compensation and benefit plans. The specific duties and responsibilities of the Compensation Committee are described in the Charter of the Compensation Committee which is available at <http://www.commercegroupcorp.com> or by writing to the Company, attention Investor Relations.

### **Base Salary**

The directors review each officer's salary annually. In determining appropriate salary levels, they consider the level and scope of responsibility, experience, initiative, specific individual performance, achievements, internal equity, as well as pay practices of other companies relating to executives of similar responsibility. By design, they strive to set executives' salaries at competitive market levels. The Officers are motivated to achieve goals consistent with the Company's business strategy. The directors agree to recognize each individual executive result and contribution to the Company's overall business results.

They believe maximum performance can be encouraged through the use of appropriate incentive programs. Incentive programs for executives are as follows:

### **Short-Term Incentive Plan Compensation**

Annual incentive awards are made to executives and managers to recognize and reward corporate and individual performance. The directors' plan provides an incentive fund. A portion of the available bonus is reserved for discretionary performance awards by the Company's President for other employees whose efforts and performance are judged to be exceptional. Due to the Company's preservation of cash and because the Company has limited revenues and it is not in gold production, the cash incentives have been deferred, however incentives, at the discretion of the recipient, may be payable by the issuance of the Company's common shares. There were no cash or other bonuses paid to any executive during the past five or more fiscal years. The amount individual executives may earn is directly dependent upon the individual's position, responsibility, and ability to impact the Company's financial success. External market data is reviewed periodically to determine competitive incentive opportunities for individual executives. (Reference is made to "Chief Executive Officer" for additional information.)

## **Long-Term Incentive Plan Compensation**

Other than the promises, assurances, and understanding that the accrued salary of late President Edward L. Machulak as of March 31, 2010 (\$3,455,786), will be paid and an adjustment will be made at such time as the Company has adequate funds to compensate him for the loss of the dollar value due to inflation that took place over the past 26.58 years, the only other obligation associated with his services is as follows: On February 16, 1987, by a Consent Resolution of all of the Directors, late President Edward L. Machulak was awarded as a bonus compensation the following: For a period of twenty (20) years, commencing the first day of the month following the month in which the Company begins to produce gold on a full production basis from its El Salvadoran gold mining operations, the Company will pay annually to the late President two percent (2%) of the pre-tax profits earned from these operations.

## **Services and Consulting Compensation Plan Covered Under SEC Form S-8 Registrations**

On June 7, 2006, the Company filed its sixth SEC Form S-8 Registration Statement No. 333-134805 under the Securities Act of 1933, and it registered 3,000,000 of the Company's \$.10 par value common shares for the purpose of distributing shares pursuant to the plan contained in such registration. Of the 3,000,000 shares registered, 932,273 shares were issued during the fiscal year ending March 31, 2008, 35,000 shares were issued during the fiscal year ending March 31, 2009, and no shares were issued during the fiscal year ending March 31, 2010, leaving a balance of 924,147 unissued Form S-8 common shares as of March 31, 2010.

## **Commerce Group Corp. Employee Benefit Account (CGCEBA)**

This account was established for the purpose of compensating the Company's employees for benefits such as retirement, severance pay, and all other related compensation that is mandatory under El Salvadoran labor regulations, and/or as determined by the Officers of the Corporation. The directors provide the officers of the Company with the authority to issue its common shares to the CGCEBA on an as needed basis. Under this plan, payment can be made to any employee of the Company or the Company's subsidiaries. The CGCEBA has sold some of the shares issued to this account from time to time to meet its obligations primarily to its El Salvadoran employees.

## **Employment Agreements**

With the exception of the disclosure made herein relative to the bonus compensation for the late President Edward L. Machulak, and because the directors have agreed that he would be adequately compensated, he had no separate employment agreements, but he had a general understanding of the incentive compensation and the adjustment for inflation, etc. promised to him. There are no formal termination or severance arrangements.

## **Chief Executive Officer**

In order to induce the late President of the Company, Mr. Edward L. Machulak, to use his best efforts to place the San Sebastian Gold Mine into production, to locate or identify the gold ore reserves, to conduct the exploration in the two concessions received from the Republic of El Salvador, to have the Company acquire any other director-approved business, or to successfully merge the Company into another business entity or arrangement, the directors had assured him that he would be adequately compensated for his time, effort and achievements. This additional recompense was to make certain that the Company's goal to produce gold would be realized and/or that another business may be acquired or that a merger take place. The directors believed that maximum performance would be achieved due to the assurance of these continuous promises. They also recognized that the price of gold prior to January 2002 was depressed and that presently the price of gold is at its peak level since 1980 which should assure a reasonable profit if the Company were in production. The fact that at this time there is more worldwide interest in gold makes the prospects of achieving a loan or business arrangement more positive.

In view of the fact that the late President of the Company had not received any cash payment for salaries for more than 26.58 years and that the value of the amount due to him has deteriorated due to inflation and other economic factors, the directors had agreed to justly take these conditions into consideration at such time when the Company will be in a position to make a cash or any other mutually satisfactory payment arrangement. One of the greater achievements made by the President was to spearhead, direct and obtain two concessions from the Government of El Salvador, which vastly expanded the Company's mining rights from an area of 1,454 acres to an area of 21,489 acres, all in and around the San Sebastian Gold Mine. This additional area includes eleven formerly-operated mines which should provide an additional opportunity to locate and identify the gold and silver ore reserves, if the concessions are reinstated by the Government of El Salvador. Also, a 30-year renewed exploitation concession was obtained. Although this has also been terminated by the Government of El Salvador, a challenge is pending.

The directors believed that the Company's President was achieving the Company's objective considering that the equity funding arrangements for the mining operations continue to be problematic. The interest in funding has been greatly enhanced since the price of gold has increased dramatically, but so far the terms and conditions in the funding proposals have not been acceptable.

## EXECUTIVE COMPENSATION SUMMARY TABLE

The following table discloses compensation for the past three fiscal years ended March 31, earned, but not received (all accrued) by the Company's late Chief Executive Officer and current Chief Executive Officer; there was no other Company Executive Officer that earned or was paid a salary in excess of \$100,000 during this fiscal year:

- (1) The total salaries and vacation pay payable to the late Edward L. Machulak over a 26.58-year period amounted to \$3,455,786 and were accrued from April 1, 1981 to October 31, 2007 (the month of his death) as follows:

The total accrued salary and vacation pay payable to Edward A. Machulak is as follows:

At the Company's Annual Board of Directors' Meeting held on October 19, 2001, the Directors adopted a resolution to compensate the late Edward L. Machulak for vacation pay based on one month for each year of service beginning on April 1, 1981 as well as a resolution to make an adjustment to compensate the late Edward L. Machulak for the loss of the dollar purchasing value caused by inflation and other economic factors on the day that the compensation is paid to him. Edward A. Machulak will also accrue his vacation pay. The accrual of salaries is at the request of the Company to assist the Company with its cash preservation. The salaries do not include the value of perquisites and other personal benefits because the aggregate amount of such compensation, if any, does not exceed the lesser of \$50,000 or ten percent of the total amount of accrued annual salary.

- (2) On February 16, 1987, by a Consent Resolution of all of the Directors, Edward L. Machulak, the late President, was awarded as a bonus compensation the following: For a period of twenty (20) years, commencing the first day of the month following the month in which the Company begins to produce gold on a full production basis from its El Salvadoran gold mining operations, the Company will pay annually to the late President two percent (2%) of the pre-tax profits earned from these operations.

- (3) On March 11, 1991, the directors decided that it would be in the best interest of the Company to reactivate its Executive Committee with authority to act on behalf of the directors during such time when the directors are not in session; two members were elected to this committee. On October 26, 2007, Directors John H. Curry and Sidney Sodos were elected to serve on this committee with Director Edward A. Machulak. Directors Sylvia Machulak and Robert C. Skeen were elected to serve on this committee on August 20, 2008. The members of the Executive Committee (excluding the President of the Company, who is a director and a member of the committee) receive a \$600 compensation fee for each meeting attended. During this fiscal year, a total of five executive meetings were held. All of the Directors attended these meetings.
- (4) On February 9, 1998, the directors formed an Audit Committee that meets before or after each regular, quarterly and/or annual directors' meeting, providing there is business to be conducted, at no additional compensation. During the fiscal period ended March 31, 2010, four Audit Committee meetings were held. On May 9, 2005, the directors acknowledged that none of them qualified as being an independent Audit Committee member, therefore, they decided that all of the directors in concert would act as an Audit Committee.
- (5) Members of the Board of Directors who were directors as of December 5, 1979, and directors thereafter who have been directors for a period of 15 years or more and do not stand for re-election shall become Directors Emeriti. Such directors are entitled to receive notice of all Board meetings, to attend such meetings, and to receive directors' fees regardless of attendance at any meeting, at a fee of not less than that provided prior to becoming a Director Emeritus. An individual serving solely as a Director Emeritus is not entitled to vote on any matter before the Board nor to be counted as a member of the Board for the purpose of determining a quorum. At present, there are two directors who qualify as Director Emeriti, but since they hold a directorship, they are not eligible for benefits.

There have never been any arrangements or understandings between any director and any other person pursuant to which any director was selected as a director, except the understanding between the directors and Edward L. Machulak, the late President of the Company, as explained under the above captions "Employment Agreements" and "Chief Executive Officer."

## **Item 12. Security Ownership of Certain Beneficial Owners and Management and Related Stockholder Matters**

The following table sets forth certain information regarding the beneficial ownership of Commerce's common shares as of April 30, 2010, by (i) each of its directors who own Commerce common shares; (ii) all directors and officers as a group; and (iii) each person or entity known by the Company to be the beneficial owner of more than 5% of its outstanding stock. Unless otherwise noted, each shareholder has sole investment and voting power over the shares owned.

\* All directors and beneficial owners listed above can be contacted through Commerce's offices located at 6001 N. 91st Street, Milwaukee, Wisconsin 53225-1795.

- (1) Unless otherwise indicated, shares shown as beneficially owned are those as to which the named person possesses sole voting and investment power.
- (2) All shares indicated are common shares and percent calculations are based on the total common shares issued and outstanding as of April 30, 2010.

- (3) The number of common shares owned by the late Edward L. Machulak, the former President of the Company, personally as of April 30, 2010 is 1,291,072. The number of shares owned by the Edward L. Machulak Rollover Individual Retirement Account as of April 30, 2010 is 2,353,670.

The number of common shares owned by Sylvia Machulak, wife of the late Edward L. Machulak, the former President of the Company, personally as of April 30, 2010 is 3,651,786. The number of shares owned by the Sylvia Machulak Rollover Individual Retirement Account as of April 30, 2010 is 342,781. If the 3,994,567 shares owned by Sylvia Machulak and her Rollover Individual Retirement Account were added to the 3,664,742 above described shares owned by the late Edward L. Machulak and his Rollover Individual Retirement Account, then the total shares would amount to 7,639,309, or a 24.84% ownership. Mr. Machulak disclaimed any beneficial interest in these shares owned by Sylvia Machulak, or her Rollover Individual Retirement Account.

- (4) Does not include 1,000 shares owned by Carol A. Machulak, Edward A. Machulak's wife, or 47,500 shares held by him and his wife for their child under the Uniform Gift to Minor's Act, in which he disclaims any beneficial interest.
- (5) The 1,411,154 common shares owned directly by Robert C. Skeen as of April 30, 2010, do not include the 1,348,923 common shares owned by Lillian M. Skeen, his wife. If the shares owned by Lillian M. Skeen were added to the 1,411,154 above described shares owned by Robert C. Skeen, then the total shares would amount to 2,760,077 or a 8.98% ownership of shares based on 30,750,869 common shares issued and outstanding as of April 30, 2010.

### **Principal Shareholders**

Other than the shareholders mentioned herein, there are no known shareholders that reported that they beneficially own more than 5% of the voting securities as defined within the meaning of the rules of the Securities and Exchange Commission as of the date of this filing.

### **Item 13. Certain Relationships and Related Transactions**

#### **Transactions with Management and Others**

The Company has not had any revenues since April 1, 2000. Various transactions with management on an individual basis and with the affiliates were entered into by the Company in order to utilize assets whenever possible, other than cash to meet its or its affiliates' obligations when due. This practice preserved the Company's cash resources for use in meeting its obligations.

Reference is made to Item 8. Financial Statements and Supplementary Data, Note 7, Related Party Transactions, Note 8, Commitments and Contingencies, and Item 11. Executive Compensation for details.

Certain promissory notes detailed in Note 7, Related Party Transactions, are secured by the following collateral:

### **Collateral Pledged to Secure the Promissory Notes**

The following collateral is held by the late Edward L. Machulak, as an individual and not as a director or officer of Commerce and in concert with the Edward L. Machulak Rollover Individual Retirement Account, the Sylvia Machulak Rollover Individual Retirement Account, Sylvia Machulak as an individual, General Lumber & Supply Co., Inc., and, beginning on March 31, 2007 it includes Machulak, Robertson & Sodos, S.C., John E. Machulak and Susan R. Robertson, husband and wife, Circular Marketing, Inc., and Edward A. Machulak as an individual: (1) 2,002,037 shares of the Sanseb \$.10 par value common stock; (2) 1,346 Mineral San Sebastian, S.A. de C.V. common shares, 100 colones par value; (3) 300 Homespan Realty Co., Inc. no par value common shares; (4) 1,800 Universal Developers, Inc. no par value common shares; (5) one voting membership certificate of San Luis Valley Irrigation Well Owners, Inc.; (6) certificate no. 312 consisting of .001447 units of Augmentation Plan Number One of San Luis Valley Irrigation Well Owners, Inc.; (7) 100 Ecomm Group Inc., \$.10 par value common shares; (8) assignment with others of the 1987 concession granted by the Government of El Salvador to Misanse which was assigned by Misanse to the Joint Venture and renewed by the Government of El Salvador on May 20, 2004 with a 30-year term exploitation concession consisting of 304 acres; (9) the New San Sebastian Gold Mine Exploration Concession consisting of an area of 10,070 acres issued on February 24, 2003 and received from the Government of El Salvador on March 3, 2003 for a period of four years beginning on December 27, 2003 and thereafter automatically extended; (10) the Nueva Esparta Exploration Concession consisting of 11,115 acres issued by the Government of El Salvador on May 24, 2004; (11) the lease agreement by and between Mineral San Sebastian Sociedad Anomina de Capital Variable (Misanse) and Commerce dated January 14, 2003; (12) the San Cristobal Mill and Plant three-year lease executed on April 26, 2004, retroactive to November 13, 2003 and thereafter automatically extended until it was terminated in October 2009; (13) all of its current investment holdings; (14) all other miscellaneous assets owned by the Company filed under the Uniform Commercial Code requirements, and all other assets owned by the Joint Venture and/or its subsidiaries, including the gold ore reserves; (15) the assignment and pledge with others of all rights, titles, claims, remedies, and interest held by the Commerce/Sanseb Joint Venture which was formed on September 22, 1987, including the gold ore reserves; and (16) the cross-pledge collateral rights. Director-approved confirmation agreements dated March 29, 2010 containing details were filed as Exhibits 99.1, 99.2, 99.3, 99.4, 99.5, 99.6 and 99.7. of this Form 10-K.

### **Collateral Pledged to General Lumber & Supply Co., Inc.**

The collateral specifically pledged to General Lumber securing the promissory note(s) is as follows: (1) 48,645 San Luis Estates, Inc. common shares, \$.50 par value; (2) an interest with the former President of the Company in an assignment and pledge of all of the corporate assets and on all of its subsidiaries' assets which has been filed under the Uniform Commercial Code requirements; and (3) reference is made to the "Transactions with Management and Others" and the late Edward L. Machulak's "Collateral Pledged to Secure the Promissory Notes" for a description of collateral pledged in concert with other described lenders.



## **Collateral Pledged to the Sylvia Machulak RIRA**

The Sylvia Machulak RIRA has as collateral the following: (1) 48,645 San Luis Estates, Inc. common shares, \$.50 par value; and (2) assignment with others of the 1987 concession granted to Misanse which was assigned by Misanse to the Joint Venture; and (3) reference is made to the "Transactions with Management and Others" and the late Edward L. Machulak's "Collateral Pledged to Secure the Promissory Notes" for a description of collateral pledged in concert with other described lenders.

## **Cross-Pledge Collateral Agreement**

The late President, Edward L. Machulak, as an individual and not as a director or officer of the Company, the Edward L. Machulak RIRA, General Lumber, the Sylvia Machulak RIRA, Sylvia Machulak individually, and beginning on March 31, 2007, the Law Firm, Machulak, Robertson & Sodos, S.C., Circular Marketing, Inc., and Edward A. Machulak individually are entitled to specific collateral that has been pledged to them by the Company, its subsidiaries, affiliates, and the Joint Venture. Upon default by the Company, or its subsidiaries, affiliates, or the Joint Venture, Edward L. Machulak, the Edward L. Machulak RIRA, General Lumber, the Sylvia Machulak RIRA, and Sylvia Machulak, have the first right to the proceeds from the specific collateral pledged to each of them, and beginning on March 31, 2007, it includes the Law Firm, Machulak, Robertson & Sodos, S.C., Circular Marketing, Inc., and Edward A. Machulak. The Company, its subsidiaries, its affiliates, and the Joint Venture also have cross-pledged the collateral without diminishing the rights of the specific collateral pledged to each of the following: the late Edward L. Machulak, the Edward L. Machulak RIRA, General Lumber, the Sylvia Machulak RIRA, Sylvia Machulak and beginning on March 31, 2007, the Law Firm, Machulak, Robertson & Sodos, S.C., Circular Marketing, Inc., and Edward A. Machulak. The purpose and the intent of the cross-pledge of collateral is to assure the late Edward L. Machulak, the Edward L. Machulak RIRA, General Lumber, the Sylvia Machulak RIRA, Sylvia Machulak, and beginning on March 31, 2007, the Law Firm, Machulak, Robertson & Sodos, S.C., Circular Marketing, Inc., and Edward A. Machulak that each of them would be paid in full; and any excess collateral that would be available is for the purpose of satisfying any debts and obligations due to each of the named parties. The formula to be used (after deducting the payments made from the specific collateral) is to total all of the debts due to the late Edward L. Machulak, the Edward L. Machulak RIRA, General Lumber, the Sylvia Machulak RIRA, Sylvia Machulak, and beginning on March 31, 2007, the Law Firm, Machulak, Robertson & Sodos, S.C., Circular Marketing, Inc., and Edward A. Machulak, and then to divide the total debt into each individual debt to establish each individual percentage of the outstanding debt due. This percentage then will be multiplied by the total of the excess collateral to determine the amount of proceeds to be paid to each party from the excess collateral due to each of them.

## **Cancellation of the Inter-Company Debts Upon Default**

Since part of the collateral pledged to the late Edward L. Machulak, the Edward L. Machulak RIRA, General Lumber, the Sylvia Machulak RIRA, Sylvia Machulak, and beginning on March 31, 2007, to the Law Firm, Machulak, Robertson & Sodos, S.C., Circular Marketing, Inc., and Edward A. Machulak is the common stock of Homespan Realty Co., Inc., Ecomm Group Inc., San Sebastian Gold Mines, Inc., San Luis Estates, Inc.; Mineral San Sebastian, S.A. de C.V., Universal Developers, Inc., and one hundred percent of the Company's interest in the Commerce/Sanseb Joint Venture, the Company agreed, upon default of the payment of principal or interest to any of the lenders mentioned herein, that it will cancel any inter-company debts owed to the Company by any of its wholly-owned subsidiaries or affiliates at such time as any of the stock or Joint Venture ownership is transferred as a result of default of any promissory note.

## **Guarantors**

The agreement among the lenders further confirms that the Company and all of the following are guarantors of loans made to each of the lenders: Commerce/Sanseb Joint Venture; Homespan Realty Co., Inc.; Ecomm Group Inc., San Luis Estates, Inc.; San Sebastian Gold Mines, Inc.; and Universal Developers, Inc. They jointly and severally guaranteed payment of the note(s) that they caused to be issued and also agreed that these note(s) may be accelerated in accordance with the provisions contained in the agreement and/or any collateral or mortgage/deeds of trust securing these notes. Also, the Company and all of its subsidiaries and affiliates, including the Commerce/Sanseb Joint Venture, agreed to the cross-pledge of the collateral for the benefit of the late Edward L. Machulak, the Edward L. Machulak RIRA, General Lumber, the Sylvia Machulak RIRA, Sylvia Machulak and beginning on March 31, 2007, to the Law Firm, Machulak, Robertson & Sodos, S.C., Circular Marketing, Inc., and Edward A. Machulak.

## **Transactions with Pension or Similar Plans**

During December 1983, the Company's Board of Directors authorized the Company to establish a Cash or Deferred Profit Sharing Plan and Trust to meet the requirements for a qualified employee benefit plan as set forth in Section 401 et seq. of the 1954 Internal Revenue Code, Section 401(k) and further authorized that, in lieu of cash, certain assets could be placed in this plan for those who qualify. Since all of the Company's assets are pledged as collateral in connection with outstanding loans, and because of the Company's limited cash position, this plan was not effected, however it is intended to effectuate a plan as soon as it is able to fund it or make other amenable arrangements.

## **Transactions with Promoters**

The Company has entered into a number of consulting agreements with finders of funds. These finders may be deemed to be promoters.

## **Termination of Employment--None**

## **Item 14. Principal Accounting Fees and Services**

### **Relationship with Independent Registered Public Accounting Firm**

The Registrant, with the approval and consent of the Board of Directors, engaged the firm of Chisholm, Bierwolf, Nilson & Morrill, LLC of Bountiful, Utah as its independent registered public accounting firm to audit the financial records of the Company for the fiscal years ended March 31, 2010 and 2009. This firm is registered with the Public Company Accounting Oversight Board (PCAOB). The Company also retained Chisholm, Bierwolf, Nilson & Morrill, LLC to audit the financial records for the fiscal year ended March 31, 2011.

## **Audit Fees**

The audit fees for the years ended March 31, 2010 and 2009 respectively, were for professional services rendered for the audits of the consolidated financial statements of the Company's Sarbanes-Oxley Section 404 requirements and assistance with review of documents filed with the SEC. There was no income tax work performed by the auditors, Chisholm, Bierwolf, Nilson & Morrill, LLC during 2010 or 2009. Chisholm, Bierwolf, Nilson & Morrill, LLC's audit fees, excluding all travel and lodging expenses are as follows for the fiscal year ended March 31, 2010: approximately \$10,800 excluding travel and lodging expenses and approximately \$13,270 for the fiscal year ended March 31, 2009.

The Audit Committee has established procedures in order to safeguard the independence of the auditors. For any proposed engagement to perform non-audit service: (i) management and the auditor must affirm to the Audit Committee that the proposed non-audit service is not prohibited by applicable laws, rules or regulations; (ii) management must describe the reasons for hiring the auditor to perform the services; and (iii) the auditor must affirm to the Audit Committee that it is qualified to perform the services. The Audit Committee has delegated to the chairman its authority to pre-approve such services in limited circumstances, and any such pre-approvals are reported to the Audit Committee at its next regular meeting. No non-audit related services were performed by Chisholm, Bierwolf, Nilson & Morrill, LLC for the fiscal years ended March 31, 2010, 2009 and 2008.

## PART IV

### **Item 15. Exhibits and Financial Statement Schedules**

(a) The following is a list of documents filed as part of this Report and are included herewith (\*) or have been filed previously:

(1) Financial Statements (included in Item 8 of this Report)

- Report of Independent Registered Public Accounting Firm
- Consolidated Balance Sheets - March 31, 2010 and 2009
- Consolidated Statements of Operations - Years Ended March 31, 2010, 2009 and 2008
- Consolidated Statements of Changes in Stockholders' Equity - Years Ended March 31, 2010, 2009 and 2008
- Consolidated Statements of Cash Flows - Years Ended March 31, 2010, 2009 and 2008
- Notes to Consolidated Financial Statements

(2) Financial Statement Schedules: All Schedules are omitted because the information called for is not applicable, is not required, or because the financial information is set forth in the financial statements or notes thereto.

(3) Schedule IV (1) Indebtedness of Related Parties

(4) Schedule IV (2) Indebtedness to Related Parties

(5) Reports on Form 8-K:

- a. On July 2, 2009, the Company filed a Securities and Exchange Commission Form 8-K disclosing that the Company and San Sebastian Gold Mines, Inc. submitted to the International Centre for Settlement of Investment Disputes (ICSID) a notice of arbitration to commence international arbitration proceedings against the Government of El Salvador under CAFTA-DR.
- b. On March 29, 2010, the Company filed a Securities and Exchange Commission Form 8-K disclosing that the Company assigned its precious stones and jewelry that had a current book value of \$132,447.77 to the Sylvia Machulak Rollover Individual Retirement Account for the purpose of reducing the open-ended, secured, on-demand promissory notes due to the Sylvia Machulak Rollover Individual Retirement Account by the sum of \$132,447.77.
- c. On July 1, 2010 the Company filed a Securities and Exchange Commission Form 8-K disclosing that it received notice from the ICSID that the three nominations for arbitrators in the Company's action under CAFTA-DR have all accepted their appointments. As a result, the Arbitral Tribunal was therefore deemed under ICSID Arbitration Rule 6 to have been constituted.

(1) Exhibits:

The exhibit numbers noted by an asterisk (\*) indicate exhibits actually filed with this Annual Report on Form 10-K. All other exhibits are incorporated by reference into this Annual Report on Form 10-K.

**COMMERCE GROUP CORP.  
FORM 10-K - MARCH 31, 2010**

**PART IV**

SIGNATURES

Pursuant to the requirements of Section 13 or 15(d) of the Securities Exchange Act of 1934, the Company has duly caused this Report to be signed on its behalf by the undersigned, thereunto duly authorized on July 12, 2010.

COMMERCE GROUP CORP.  
(Company)

By: /s/ Edward A. Machulak  
Edward A. Machulak  
Chairman of the Board of Directors,  
Member of Executive Committee,  
Member of Audit Committee  
Director-Emeritus, President and  
Chief Executive Officer

Pursuant to the requirements of the Securities Exchange Act of 1934, this Report has been signed below by the following persons, on behalf of the Company and in the capacities and on the dates indicated:

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	<u>Mining <sup>*1</sup> El Salvador, Central America</u>	<u>Corporate Headquarters</u>
Year ended March 31, 2010		
Sales and revenues	\$ 0	\$ 0
Depreciation & amortization	0	0
Operating income (loss)	0	(4,877,960)
Total assets	272,290	42,421
Capital expenditures	0	0
Year ended March 31, 2009		
Sales and revenues	\$ 0	\$ 0
Depreciation & amortization	0	0
Operating income (loss)	;0	(30,016,783)
Total assets	321,174	252,097
Capital expenditures	0	0

- pertain to the maintenance of records that in reasonable detail accurately and fairly reflect the transactions and dispositions of our assets;
- provide reasonable assurance that transactions are recorded as necessary to permit preparation of financial statements in accordance with generally accepted accounting principles, and that our receipts and expenditures are being made only in accordance with authorizations of management and our directors; and
- provide reasonable assurance regarding prevention or timely detection of unauthorized acquisition, use or disposition of our assets that could have a material effect on the financial statements.

<u>Name</u>	<u>Age as of March 31, 2010</u>	<u>Executive Offices Held With Company (1)</u>	<u>Period Served In Office (2)</u>
Edward A. Machulak	58	President and Chief Executive Officer Temporary Chairman Executive Vice President Secretary Assistant Secretary	10/26/07 to present 10/21/07 to 10/26/07 10/16/92 to 10/26/07 1/12/87 to 10/26/07 4/15/86 to 1/12/87
Sidney Sodos	72	Vice President and Treasurer	10/26/07 to present
John H. Curry	69	Executive Vice President	10/26/07 to present

<u>Name and Principal Position</u>	<u>Year</u>	<u>Salary</u>	<u>Bonus</u>	<u>All Other Compensation (1)(2) (3)&amp;(4)</u>
Edward A. Machulak (Chairman, President and Chief Executive Officer)	2010 2009	\$178,750 (None Paid- All Accrued)	(1) (1))	All Accrued-None Paid
Edward L. Machulak (Late Chairman, President, Chief Executive Officer and Treasurer)	2008	\$178,750 (None Paid- All Accrued)	(1) & (2)	All Accrued-None Paid
		\$178,750 (None Paid- \$104,271 Accrued 4/1/07-10/31/07)		All Accrued-None Paid
<u>Period</u>	<u>Years</u>	<u>Annual Salary</u>	<u>Total</u>	
April 1, 1981 – March 31, 1992	11.00	\$ 67,740	\$ 745,140	
April 1, 1992 – September 30, 1996	4.500	\$114,750	\$ 516,375	
October 1, 1996 – October 31, 2007	<u>11.08</u>	\$165,000	<u>\$1,828,750</u>	

Balance	26.58		\$3,090,265
<u>Vacation Pay</u>	<u>Months</u>	<u>Payment</u>	<u>Total</u>
April 1, 1981 – October 31, 2007	26.58	\$13,750	\$ 365,521
Total wages, etc. due as of March 31, 2010			\$3,455,786
<u>Period</u>	<u>Years</u>	<u>Annual Salary</u>	<u>Total</u>
April 1, 2008 – March 31, 2010	2	\$165,000	\$330,000
Balance	2		\$330,000
<u>Vacation Pay</u>	<u>Months</u>	<u>Payment</u>	<u>Total</u>
November 1, 2007 – March 31, 2010	2.41666	\$13,750	\$ 33,229
Total wages, etc. due as of March 31, 2010			\$363,229

<u>Name and Address of Beneficial Owner*</u>	<u>Position</u>	<u>Amount and Nature of Beneficial Ownership</u> <sup>(1)(2)</sup>	
		<u>Shares</u>	<u>Percent</u>
Edward L. Machulak, deceased	Late Chairman of the Board, Director, President, Treasurer, Director Emeritus, Member of Executive Committee	1,291,072 <sup>(3)</sup>	4.20%
Edward L. Machulak Rollover Retirement Account	Individual	2,353,670 <sup>(3)</sup>	7.66%
Edward A. Machulak	Chairman of the Board, Director, President, Director Emeritus, and Member of the Executive Committee	1,492,512 <sup>(4)</sup>	4.85%
Sylvia Machulak	Director	3,651,786 <sup>(3)</sup>	11.88%
Sylvia Machulak Rollover Retirement Account	Individual	342,781 <sup>(3)</sup>	1.11%
Robert C. Skeen	Director	1,411,154 <sup>(5)</sup>	4.59%
Sidney Sodos	Vice President, Director and Treasurer and Member of the Executive Committee as of October 26, 2007	363,118	1.18%
John H. Curry	Executive Vice President and Director and Member of the Executive Committee as of October 26, 2007	<u>338,998</u>	<u>1.10%</u>
All Directors, Officers and Affiliates as a Group		11,245,091	36.57%

<u>Exhibit Number</u>	<u>Description of Exhibit</u>
3.1	Articles of Incorporation of the Company. (Incorporated by reference to Exhibit 3.(i) of the Company's S.E.C. Form 8-K filed on April 13, 1999.)
3.2	Amended By-laws of the Wisconsin Chartered Company dated May 10,



2004. (Incorporated by reference to Exhibit 3.2 of the Company's S.E.C. Form 10-K for the year ended March 31, 2006.)
- 3.3 The Articles of Amendment of the Wisconsin corporation increasing the authorized shares to 50,000,000 common shares. (Incorporated by reference to Exhibit 3.(iii) of the Company's S.E.C. Form 8-K filed on April 13, 1999.)
- 3.4 The Articles of Merger from a Delaware corporation to a Wisconsin corporation effective April 1, 1999 at 12:01 a.m. (Central Time). (Incorporated by reference to Exhibit 2.(i) of the Company's S.E.C. Form 8-K filed on April 13, 1999.)
- 3.5 A Certificate of Merger filed with the Office of the Secretary of State of Delaware merging into a Wisconsin corporation. (Incorporated by reference to Exhibit 2.(ii) of the Company's S.E.C. Form 8-K filed on April 13, 1999.)
- 4 Instruments defining the rights of security holders, including indentures.
- 9 Voting Trust Agreement--not applicable.
- 10 Material contracts.
- 10.1 Bonus compensation, Edward L. Machulak, February 16, 1987. (Incorporated by reference to Exhibit 7 of the Company's Form 10-K for the year ended March 31, 1987.)
- 10.2 Loan Agreement and Promissory Note, Edward L. Machulak, June 20, 1988. (Incorporated by reference to Exhibit 10.2 of the Company's Form 10-K for the year ended March 31, 1993.)

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Exhibit Number

Description of Exhibit

- 10.3 Loan Agreement and Promissory Note, Edward L. Machulak, October 14, 1988. (Incorporated by reference to Exhibit 10.3 of the Company's Form 10-K for the year ended March 31, 1993.)
- 10.4 Loan Agreement and Promissory Note, Edward L. Machulak, May 17, 1989. (Incorporated by reference to

- Exhibit 10.4 of the Company's Form 10-K for the year ended March 31, 1993.)
- 10.5 Loan Agreement and Promissory Note, Edward L. Machulak, April 1, 1990. (Incorporated by reference to Exhibit 10.5 of the Company's Form 10-K for the year ended March 31, 1993.)
- 10.6 Letter Agreement, Edward L. Machulak, October 10, 1989. (Incorporated by reference to Exhibit 10.6 of the Company's Form 10-K for the year ended March 31, 1993.)
- 10.7 Loan Agreement and Promissory Note dated January 19, 1994. (Incorporated by reference to Exhibit 10.10 of the Company's Form 10-K for the year ended March 31, 1995.)
- 10.8 John E. Machulak and Susan R. Robertson, Loan Agreement and Promissory Note dated June 3, 1994. (Incorporated by reference to Exhibit 10.14 of the Company's Form 10-K for the year ended March 31, 1995.)
- 10.9 Lillian M. Skeen, Loan Agreement and Open Ended On Demand Promissory Note dated June 26, 1997. (Incorporated by reference to Exhibit 10.9 of the Company's Form 10-K for the year ended March 31, 1998.)
- 10.10 Robert C. Skeen, Loan Agreement and Open Ended On Demand Promissory Note dated June 26, 1997. (Incorporated by reference to Exhibit 10.10 of the Company's Form 10-K for the year ended March 31, 1998.)
- 10.11 Robert C. Skeen, Loan Agreement and Open Ended On Demand Promissory Note dated January 20, 1998. (Incorporated by reference to Exhibit 10.11 of the Company's Form 10-K for the year ended March 31, 1998.)

- 10.12 John E. Machulak and Susan R. Robertson, Loan Agreement and Open Ended On Demand Promissory Note dated March 6, 1998. (Incorporated by reference to Exhibit 10.12 of the Company's Form 10-K for the year ended March 31, 1998.)
- 10.13 Lillian M. Skeen, Loan Agreement and Open Ended On Demand Promissory Note dated May 21, 1998. (Incorporated by reference to Exhibit 10.13 of the Company's Form 10-K for the year ended March 31, 1998.)
- 10.14 Edward A. Machulak, Loan Agreement and Open Ended On Demand Promissory Note dated March 6, 1998. (Incorporated by reference to Exhibit 10.14 of the Company's Form 10-K for the year ended March 31, 1999.)
- 10.15 Three-year lease agreement by and between the Company and Corporacion Salvadorena de Inversiones ("Corsain"), an El Salvadoran governmental agency, covering the real estate known as the San Cristobal Mill and Plant (SCMP) executed on April 26, 2004, retroactive to November 13, 2003. (Incorporated by reference to Exhibit 10.15 of the Company's Form 10-K for the year ended March 31, 2004.)
- 10.16 Nineteen-month lease agreement by and between the Company and Corporacion Salvadorena de Inversiones ("Corsain"), an El Salvadoran governmental agency, covering the real estate known as the San Cristobal Mill and Plant (SCMP) executed on March 25, 2008, retroactive to November 12, 2006. Lease renewed on June 12, 2008 for a six-month period to expire on December 11, 2008, with an option to subsequently renew it for additional three-month periods. The Company chose to exercise this option and renewed the lease until it was terminated in October 2009. (Incorporated by reference to Exhibit 10.16 of the Company's Form 10-K for the year ended March 31, 2008.)
- 10.17 Renewed January 14, 2003 thirty (30) year lease agreement by and between the Company and Mineral San

Sebastian S.A. de C.V. (Misanse) covering the 1,470-acre San Sebastian Gold Mine real estate. (Incorporated by reference to Exhibit 3 of Exhibit B of Exhibit 99.3 of the Company's Form 10-K for the year ended March 31, 2003.)

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<u>Exhibit Number</u>	<u>Description of Exhibit</u>
10.18	Exploitation concession/license issued by the Government of El Salvador to the Company for a period of 30 years under Agreement Number 591 dated May 20, 2004. This concession/license permits the Company to develop, extract and sell precious metals from a 304-acre site and is identified as the Renewed San Sebastian Gold Mine (Renewed SSGM). (Incorporated by reference to Exhibit 10.17 of the Company's Form 10-K for the year ended March 31, 2006.)
10.19	Exploration concession/license issued by the Government of El Salvador to the Company for a period of four years with a four-year renewable extension under Resolution Number 27 dated February 24, 2003. This concession/license permits the Company to explore an area of 10,070 acres for precious metals and is identified as the New San Sebastian Gold Mine Exploration Concession/License (New SSGM). (Incorporated by reference to Exhibit 10.16 of the Company's Form 10-Q for the period ended September 30, 2003.)
10.20	Exploration concession/license issued by the Government of El Salvador to the Company for a period of four years with a four-year renewable extension under Resolution Number 271 dated May 25, 2004. This concession/license permits the Company to explore an area of 11,115 acres for precious metals and is identified as the Nueva Esparta Exploration Concession/License

	(Nueva Esparta). (Incorporated by reference to Exhibit 10.19 of the Company's Form 10-K for the year ended March 31, 2006.)
10.21	Lawsuit Company filed with the El Salvadoran Court of Administrative Litigation of the Supreme Court of Justice. (Incorporated by reference to Exhibit 10.20 of the Company's Form 10-K for the year ended March 31, 2007.)
10.22*	Notice of Arbitration dated July 2, 2009

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<u>Exhibit Number</u>	<u>Description of Exhibit</u>
11*	Schedule of Computation of Net Income Per Share
21*	Subsidiaries and Joint Venture of the Company
31.1*	Certification of Chief Executive Officer pursuant to Rule 13(a)-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
31.2*	Certification of Chief Financial Officer pursuant to Rule 13(a)-14(a)/15d-14(a), as adopted pursuant to Section 302 of the Sarbanes-Oxley Act of 2002.
32.1*	Certification of Chief Executive Officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
32.2*	Certification of Chief Financial Officer pursuant to U.S.C. Section 1350, as adopted pursuant to Section 906 of the Sarbanes-Oxley Act of 2002.
99.0	Additional Exhibits
99.1*	Confirmation agreement, General Lumber & Supply Co., Inc., March 29, 2010, incorporated herein by reference.
99.2*	Confirmation Agreement, Sylvia Machulak, Widow, on behalf of Edward L. Machulak, deceased,

- March 29, 2010, incorporated herein by reference.
- 99.3\* Confirmation Agreement, Sylvia Machulak, Widow, on behalf of Edward L. Machulak, deceased, for the Edward L. Machulak Rollover Individual Retirement Account, March 29, 2010, incorporated herein by reference.
- 99.4\* Confirmation Agreement, Sylvia Machulak as an individual and for her Rollover Individual Retirement Account, March 29, 2010, incorporated herein by reference.
- 99.5\* Confirmation Agreement, Edward A. Machulak as an individual and as President of Circular Marketing, Inc., March 29, 2010, incorporated herein by reference.
- 99.6\* Confirmation Agreement, John E. Machulak and Susan R. Robertson as individuals, March 29, 2010, incorporated herein by reference.

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<u>Exhibit Number</u>	<u>Description of Exhibit</u>
99.7*	Confirmation Agreement, the Law Firm of Machulak, Robertson & Sodos, S.C., March 29, 2010, incorporated herein by reference.
99.8	Concession Agreement Assignment to the Company by Misanse (Incorporated by reference to Exhibit 1 of the Company's Form 10-K for the year ended March 31, 1988.)
99.9	Individual financial statements of majority-owned companies have been omitted because most of these companies are inactive and do not constitute a significant or material contribution to the Company.
99.10	S.E.C. Form S-8 Registration Statement No. 333-134805 filed under the Securities Act of 1933, as amended and declared effective June 7, 2006, registering three million of its common shares, ten cents par value. (Incorporated by reference as this S.E.C. Form S-8 Registration Statement had been filed on June 7, 2006.)
99.11	Consent of Independent Registered Public Accounting Firm to incorporate by reference in the S.E.C.

Form S-8 Registration Statement No. 333-134805 filed under the Securities Act of 1933 as amended and declared effective June 7, 2006, the Independent Registered Public Accounting Firm's report dated May 24, 2006 relating to the financial statements of the Company for the years ended March 31, 2006 and 2005. (Incorporated by reference to Exhibit 99.7(a) of the Company's Form 10-K for the year ended March 31, 2006.)

<u>Name</u>	<u>Office</u>	<u>Date</u>
<u>/s/ Edward A. Machulak</u> Edward A. Machulak	Chairman of the Board of Directors, Member of Executive Committee, Member of Audit Committee, Director-Emeritus, President and Chief Executive Officer	<u>July 14, 2010</u>
<u>/s/ Sidney Sodos</u> Sidney Sodos	Director, Vice President and Treasurer	<u>July 14, 2010</u>
<u>/s/ John H. Curry</u> John H. Curry	Director and Member of Audit Committee, Executive Vice President	<u>July 14, 2010</u>