



## **Management Discussion & Analysis for the Six Months Ended April 30, 2017**

The following discussion and analysis of the financial position and results of operations for COMMERCE RESOURCES CORP. (the “Company” or “Commerce”) should be read in conjunction with the condensed interim financial statements for the **six months ended April 30, 2017**, which are prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”).

The effective date of this report is June 15, 2017.

All financial figures presented herein are expressed in Canadian Dollars (CDN\$) unless otherwise specified.

### **Nature of Business and Overall Performance**

Commerce Resources Corp. is a Canadian mineral exploration and development company, listed on Tier 1 of the TSX Venture Exchange in Canada (“CCE”) and the Frankfurt Stock Exchange in Germany (“D7H”). The Company’s primary focus is on rare earth elements (“REEs”) and the rare metals tantalum and niobium. Commerce’s principal assets are the Eldor Property in Quebec and the Blue River Tantalum-Niobium Project in British Columbia. The technical information included in this Management Discussion & Analysis (“MD&A”), unless otherwise stated, has been reviewed by Darren L. Smith, M.Sc., P. Geol., of Dahrouge Geological Consulting Ltd. Mr. Smith is a Qualified Person under National Instrument 43-101 (“NI 43-101”).

The Company’s exploration activities have led to the discovery of a significant REE deposit; the Ashram Deposit. A positive Preliminary Economic Assessment (“PEA”) was completed on the rare earth element development potential of the Ashram Deposit (Effective date of July 5, 2012; revised January 7, 2015). The PEA, prepared by SGS Canada Inc., indicates that the deposit could potentially be developed economically as an open-pit mine and recommends future work applicable to the Pre-Feasibility and Feasibility study phases of economic evaluation.

For the Blue River Project, independent consultant Amec Foster Wheeler Americas Limited (“AFW”) and consultant Nimbus Management Ltd completed the 43-101 compliant Blue River Report (as defined herein) effective March 18, 2015.

## **Selected Annual Information**

The following is a summary of the financial data of the Company for the last three completed fiscal year ends and are derived from the audited annual financial statements of the Company:

	Fiscal year ended October 31		
	2016	2015	2014
	\$	\$	\$
Total Revenues	Nil	Nil	Nil
Loss from continuing operations	(1,065,422)	(2,487,355)	(1,455,751)
Loss from continuing operations (per share, basic and diluted)	(0.00)	(0.01)	(0.01)
Net loss	(1,065,422)	(2,487,355)	(1,455,751)
Net loss (per share, basic and diluted)	(0.00)	(0.01)	(0.01)
Net comprehensive loss for the year	(951,246)	(2,161,922)	(1,404,034)
Total assets	61,395,727	59,746,192	58,113,640
Total long term financial liabilities	Nil	Nil	Nil
Cash dividend declared per share	Nil	Nil	Nil

The Company has recorded losses in each of its three most recently completed fiscal years, and expects to continue to record losses until such time as an economic resource is identified, developed, and brought into profitable commercial operation on one or more of the Company's properties or otherwise disposed of at a profit. During the year ended October 31, 2014, the Company's operating expenses were again consistent with the prior year, and no significant variances in expenses were recorded. During the year ended October 31, 2015, the Company's operating expenses increased, as the Company raised funds for exploration and further promotion of the Company's projects. Also during the year, the Company recorded a permanent write down of its marketable securities and impaired a number of claims on the Eldor Property which significantly increased its net loss from the prior year. During the year ended October 31, 2016, the Company's operating expenses decreased by 28% due to cost-saving measures. Also during the year, the Company recorded other expenses of \$234,418 for penalties and interest and a flow-through share liability to shareholders of \$274,565 for expenses incurred on unspent flow-through funds, recorded a gain on the sale of asset-backed commercial paper of \$414,783, and recorded reduced income tax recovery due to a reduction in flow-through spending during the year. The increase in the Company's assets is due to the continued exploration at the Eldor Property.

## **Results of Operations**

### *Exploration and Development Activities*

Resource property expenditures for the six months ended April 30, 2017 totalled \$528,781, compared to \$349,245 during the six months ended April 30, 2016. Most of these expenditures (2017: \$476,433, 2016: \$299,182) were incurred on the Eldor Property with the balance being incurred on the Blue River Project (2017: \$52,348, 2016: \$50,063).

The increase in resource property spending on the Ashram Project (Eldor Property) is due to the availability of cash. The Company intends to increase the spending once it has successfully raised funds.

## Eldor Property

The Eldor Property is situated in northern Quebec approximately 130 km south of the town of Kuujuaq. The property is 100%-owned by the Company and is composed of 244 claims comprising approximately 11,475 hectares, including the Ashram Rare Earth Deposit (“Ashram Deposit”).

Exploration expenditures during the six months ended April 30, 2017, totalled \$476,433 (April 30, 2016: \$299,182).

In 2012, the Company reported a positive PEA for the Ashram Deposit. The PEA, prepared by independent consultants SGS Canada Inc. - Geostat (SGS Geostat) of Montreal (Blainville), indicates that the deposit could potentially be developed economically as an open-pit mine and recommends future work applicable to the Pre-feasibility phases of economic evaluation.

Key findings of the PEA (in Canadian dollars):

- 4,000 t/d open-pit operation with 0.19:1 (waste: mineralization) strip ratio over a 25-year mine life
- Pre-tax Net Present Value (NPV) of \$2.32 billion dollars at a 10% discount rate
- Pre-tax Internal Rate of Return (IRR) of 44% and pre-tax payback period of 2.25 years
- Estimated capital cost of \$763 million (including 25% contingency)
- Estimated operating cost of \$95.20/tonne treated, or approximately \$7.91/ kg of rare earth oxide (REO) produced
- Annual production averaging ~16,850 tonnes of rare earth oxide over life of mine, including 2,870 tonnes Nd oxide, 96 tonnes Eu oxide, 26 tonnes Tb oxide, 106 tonnes Dy oxide, and 440 tonnes Y oxide
- Rare earth element host mineralogy (monazite, bastnaesite, and xenotime) comprises phases amenable to recovery with processing using conventional and proven techniques

The PEA uses the mineral resource estimate for the Ashram Deposit released on March 6, 2012 (SGS Geostat, 2012):

Cut-off	Confidence Category	Tonnage (t)	TREO (%)	LREO (%)	MREO (%)	HREO (%)	MHREO (%)	MHREO/TREO (%)
1.25	Measured	1,590,000	1.77	1.60	0.089	0.085	0.17	9.8%
	Indicated	27,670,000	1.90	1.77	0.073	0.056	0.13	6.7%
	Inferred	219,800,000	1.88	1.77	0.068	0.045	0.11	6.0%

- The base case TREO cut-off grade (CoG) for the reporting of the 2012 mineral resource estimate was retained from the 2011 base case CoG of 1.25% TREO. An Ashram basket price assumption of \$35.02 per kg was used.
- LREO (Light Rare Earth Oxides) = La<sub>2</sub>O<sub>3</sub> + Ce<sub>2</sub>O<sub>3</sub> + Pr<sub>2</sub>O<sub>3</sub> + Nd<sub>2</sub>O<sub>3</sub>
- MREO (Middle Rare Earth Oxides) = Sm<sub>2</sub>O<sub>3</sub> + Eu<sub>2</sub>O<sub>3</sub> + Gd<sub>2</sub>O<sub>3</sub>
- HREO (Heavy Rare Earth Oxides) = Tb<sub>2</sub>O<sub>3</sub> + Dy<sub>2</sub>O<sub>3</sub> + Ho<sub>2</sub>O<sub>3</sub> + Er<sub>2</sub>O<sub>3</sub> + Tm<sub>2</sub>O<sub>3</sub> + Yb<sub>2</sub>O<sub>3</sub> + Lu<sub>2</sub>O<sub>3</sub> + Y<sub>2</sub>O<sub>3</sub>
- MHREO (Middle and Heavy Rare Earth Oxides) = MREO + HREO
- MHREO / TREO, ratio expressed as a percent

The preliminary economic assessment is preliminary in nature, in that it includes inferred mineral resources that are considered too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the preliminary economic assessment will be realized. The current Ashram Technical Report dated January 7, 2015 explains why no after-tax case is included, and that a combined tax rate of around 32.5% may apply to production.

The rare earth mineralized footprint at Ashram extends approximately 700 metres along strike, over 500 metres across, and to depths exceeding 600 metres. Mineralization remains open to the north, south, at depth, and is not fully constrained to the west and east.

### *2016 Work Program and Eldor Updates:*

On April 7, 2016, the Company entered into a Memorandum of Understanding (“MOU” with NorFalco Sales (“NorFalco), where the Company agreed that NorFalco will be the sole provider of the sulphuric acid required for the Ashram Project, at highly competitive market rates and terms. The agreement is binding and is subject to an initial 5-year term and may be renegotiated thereafter.

On April 21, 2016, the Company announced it had completed a preliminary evaluation of local and regional wind data to the west of Lac LeMoyne, indicating favourable wind speeds for renewable power development as part of the Ashram Project’s energy requirements. For additional information, refer to the Company’s April 21, 2016 news release.

On June 16, 2016, the Company announced that it had been awarded a grant totalling \$300,000 from Fonds de recherche du Quebec – Nature et technologie (“FRQNT”) and the Ministère de l’Energie et des Ressources naturelles (“MERN”). These funds will be directed, in collaboration with the Institut national de la recherche scientifique (INRS), to the optimization of tailings management for the Ashram Project in Quebec

On August 17, 2016, the Company announced that it had initiated a field program that would include resource definition drilling, hydrogeological testwork, and further environmental baseline data collection for continued advancement of the Ashram Project.

On September 13, 2016, the Company announced up to 5.9% Nb<sub>2</sub>O<sub>5</sub> was assayed from boulders recently collected in the Miranna Area. The sampling further delineated a Nb-Ta-Phosphate-REE mineralized boulder train in the area with a potential bedrock source identified for drill testing.

On September 20 and October 20, 2016, the Company provided updates on the progress of the 2016 field exploration program. A total of 14 were completed for 2,014 m, focused along the northern, western, and southern margins of the Ashram Deposit. Surface and groundwater sample collection for analysis was also completed in support of the ongoing environmental baseline program, as well as a pumping test.

On June 5, 2017, the Company announced it had entered into a Memorandum of Understanding (“MOU”) with Ucore Rare Metals Inc. (“Ucore”). Under the terms of the MOU, the Company will provide a sample of rare earth carbonate, produced using material from the Ashram Deposit, for process testing using Ucore’s SuperLig-One MRT (molecular recognition technology). The objective of the test work is to complete a definitive assessment of the suitability of the Ashram concentrate as potential feedstock for the strategic metals complex, with a view to a subsequent long-term supply partnership and off-take relationship.

### **Blue River Tantalum/Niobium Project**

The Blue River Project, located in British Columbia, Canada, is host to the Upper Fir Deposit. The Upper Fir Deposit is located approximately 30 km north of the town of Blue River, and is owned 100% with no underlying royalties.

Exploration expenditures during the six months ended April 30, 2017, totalled \$52,348 (2016: \$50,063). Most of the work this period has been with the objective of maintaining the property and its data base for future exploration and development of the project.

### **Project Update Report**

In connection with filing its Annual Information Form for its fiscal year ended October 31, 2014, the Company filed an updated technical report with respect to the Blue River Project, as further amended and

filed on the date hereof, entitled: “NI 43-101 Blue River Tantalum-Niobium Project, British Columbia, Canada - Project Update Report” (the “Blue River Report”). The Blue River Report was prepared by AFW and Nimbus Management Ltd. with a March 18, 2015 effective date. The previous technical report, with an effective date of June 21, 2013, included results of a PEA initially reported in 2011. The economic inputs for that mining study are now considered outdated and the PEA results are no longer relevant. No additional work has been completed on the property since the effective date of the previous technical report. Any changes to the economic inputs to the mineral resource estimates are considered offsetting and therefore the estimates are unchanged since the last technical report. The Blue River Report, which incorporates all data from 2005 through 2012, shows indicated mineral resources totalling 48.4 million tonnes at 197 ppm Ta<sub>2</sub>O<sub>5</sub> and 1.610 ppm Nb<sub>2</sub>O<sub>5</sub> and inferred mineral resources totalling 5.4 million tonnes at 191 ppm Ta<sub>2</sub>O<sub>5</sub> and 1,760 ppm Nb<sub>2</sub>O<sub>5</sub>. A total of 271 drill holes comprising 59,110 metres of HQ drill core and 15,512 samples were used to develop the mineral resource estimate.

### Use of Funds

During the last two years, the Company has raised gross proceeds of \$9.0 million. The proceeds were all raised for the specific purpose of advancing the Company’s Eldor Property and for general working capital purposes. During this time, the Company has used approximately \$7.0 million of the proceeds for work on the Company’s properties and \$2.0 million on general working capital.

On February 16, 2017, the Company completed a non-brokered private placement financing of 34,350,450 units (a “Unit”), at a price of \$0.05 per Unit, for gross proceeds of \$1,717,523. Each Unit consists of one common share of the Company (each, a “Share”) and one share purchase warrant (each, a “Warrant”). Each Warrant is exercisable into one additional Share at a price of \$0.075 per Share in the first year after issuance and at \$0.10 per Share in the second year after issuance. The Company paid cash finders fees of \$12,950 and issued 259,000 share purchase warrants (the “Finder’s Warrants”) to two finders in connection with certain subscriptions in the Financing. The Finder’s Warrants have the same terms as the Warrants. The securities issued under the Financing, and the Shares that may be issuable on exercise of the Warrants and the Finder’s Warrants, are subject to a statutory hold period expiring on June 17, 2017.

On August 12, 2016, the Company closed the second tranche of its previously announced short-form prospectus offering, raising gross proceeds of \$277,500 with Secutor Capital Management Corporation (the “Agent”) acting as agent for the Company with respect to the sale of 3,700,000 units (“Units”) of Commerce at a price of \$0.075 per Unit. Each Unit consists of one common share and one common share purchase warrant (each, a “Warrant”). Each Warrant entitles the holder to purchase one common share for a price of \$0.10 per common share expiring August 12, 2018. The Agents were paid a cash commission of \$19,425 in connection with the second tranche of the Public Offering and received an aggregate of 259,000 broker warrants to acquire up to 259,000 common shares at a price of \$0.075 per common share expiring August 12, 2018.

On August 12, 2016, the Company closed the Concurrent Private Placement, raising gross proceeds of \$551,040. The company issued 5,800,421 flow-through shares at a price of \$0.095 per common share. In connection with the Concurrent Private Placement, finders were paid a cash commission of \$35,700 and received an aggregate of 375,789 finders’ warrants to acquire up to 375,789 common shares at a price of \$0.095 per common share expiring August 12, 2018. The Company allocated \$145,011 to liability for flow through shares from the issuance of FT Shares.

On June 30, 2016, the Company closed the first tranche of its short-form prospectus offering, raising gross proceeds of \$1,169,900. The Company issued 15,598,665 units (“Units”) at a price of \$0.075 per Unit. Each Unit consists of one common share and one common share purchase warrant (a “Warrant”). Each Warrant entitles the holder to purchase one common share for a price of \$0.10 per common share expiring June 30, 2018. The Agents were paid a cash commission of \$78,255 in connection with the Unit Offering

and received an aggregate of 1,043,407 agent's warrants to acquire up to 1,043,407 common shares at a price of \$0.075 per common share expiring June 30, 2018. The agent's warrants were valued at fair value of \$34,805. The residual \$70,693 of share issuance costs includes legal and filing expenses related directly to the short form financing.

On November 27, 2015, the Company closed the first tranche of a non-brokered flow-through private placement for gross proceeds of \$1,650,429. The Company issued 15,003,900 flow-through shares ("FT Shares") at a price of \$0.11 per FT Share. On December 24, 2015, the Company closed the second tranche for gross proceeds of \$323,796. The Company issued 2,943,600 FT Shares at a price of \$0.11 per FT Share. The Company paid a total of \$116,793 and issued 1,061,750 agent's warrants exercisable at \$0.11 per warrant share for a period of two years to various finders. The agent's warrants were valued at fair value of \$46,033. The fair value of the shares at the date of issuance ranged from \$0.075 to \$0.085 where the exercise price is greater than the market price. The Company allocated \$472,506 to liability for flow through shares from the issuance of FT Shares. The residual \$28,031 of share issuance costs includes legal and filing expenses related directly to the private placement.

For additional details regarding the Company's recent financing, please refer to Note 9 of the Company's most recent financial statements.

### General and Administrative

Net loss for the six months ended April 30, 2017, was \$562,278, compared to a net loss during the six months ended April 30, 2016 of \$682,562, for a difference of \$120,284. The significant expenses include:

- Administrative fees (2017: \$203,810; 2016: \$322,860) for management services provided have decreased to reflect reduced administrative requirements as the Company's activities have been reduced;
- Advertising and website expenses (2017: \$224,472; 2016: \$139,039), travel expenses (2017: \$40,509; 2016: \$50,284), and investor relations expenses (2017: \$42,480; 2016: \$34,648) as a group have increased to reflect the additional promotion for the Company's private placements;
- Consulting fee (2017: \$12,408; 2016: \$73,987) decreases have been offset by professional fee (2017 \$81,958; 2016: \$21,730) increases, due to the nature of the Company's current activities;
- Filing fees and transfer agent costs (2017: \$21,978; 2016: \$34,432) decreased due to regulatory fees required for the short form prospectus prepared in the prior year's period;
- Insurance expense (\$2017: \$5,646; 2016: \$5,646);
- Office, telephone and miscellaneous costs (2017: \$22,769; 2016: \$6,170);
- Interest income (2017: \$387; 2016: \$2,672) decreased as the Company's investments were lower in the current period;
- Other expenses (2017: \$16,677; 2016: \$234,418) decreased due to interest expense and penalties charged on renounced flow through expenditures using the look-back rule in the prior year's period;
- Foreign exchange gains (2017: \$1,109, 2016: \$3,307 loss) increased due to the change in exchange rates on US dollar payables;
- Gain on the disposition of asset backed commercial paper (2017: \$4,747; 2016: \$181,186) decreased due to a reduction in redemptions of investments during the current period; and
- Deferred tax recovery (2017: \$104,186; 2016: \$60,201) increased due to increased flow through renunciations in the current period.

### Asset Backed Commercial Paper

As at April 30, 2017, the Company held asset-backed commercial paper (“ABCP”) issued by a number of trusts with an original cost of \$76,722 (October 31, 2016: \$81,500).

The valuation technique used by the Company to estimate the fair value of its investment in ABCP at April 30, 2017 and October 31, 2016, incorporates probability weighted discounted cash flows considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments. The assumptions used in determining the estimated fair value reflect the details included in the Information Statement issued by the Pan-Canadian restructuring committee and the risks associated with the long-term floating rate notes.

During the six months ended April 30, 2017, the Company received payments from settlement of \$5,054 (April 30, 2016: \$430,072) and recognized a gain on sale of ABCP of \$4,747 (April 30, 2016: \$181,186). As at April 30, 2017, the fair value of the ABCP as determined above was \$5,471 (October 31, 2016: \$5,471) and the Company recorded an unrealized gain of \$307 (April 30, 2016: \$65,744 loss) from this instrument.

### Summary of Quarterly Results

The following is a summary of the results from the eight previously completed financial quarters:

	April 30, 2017	January 31, 2017	October 31, 2016	July 31, 2016
Revenues	Nil	Nil	Nil	Nil
Income (loss) before income taxes, discontinued and extraordinary items (Total)	(313,851)	(352,613)	(373,986)	(364,660)
Basic and diluted loss before discontinued and extraordinary items (Per share)	(0.001)	(0.000)	(0.000)	(0.001)
Net income (loss) (total)	(293,185)	(269,093)	(37,962)	(344,898)
Basic and diluted net income (loss) (per share)	(0.001)	(0.001)	(0.001)	(0.001)

	April 30, 2016	January 31, 2016	October 31, 2015	July 31, 2015
Revenues	Nil	Nil	Nil	Nil
Income (loss) before income taxes, discontinued and extraordinary items (Total)	(277,599)	(465,164)	(2,243,912)	(410,403)
Basic and diluted loss before discontinued and extraordinary items (Per share)	(0.001)	(0.002)	(0.010)	(0.002)
Net income (loss) (total)	(248,024)	(434,538)	(2,058,085)	(14,520)
Basic and diluted net income (loss) (per share)	(0.001)	(0.002)	(0.000)	(0.000)

Over the course of the Company’s previously completed eight quarters, the Company’s loss before income taxes has remained at a consistent level with some notable exceptions. During the quarter ended October 31, 2015, the significant increase in loss before income taxes relates to the impairment of mineral properties and the permanent write-down of marketable securities. During the quarters ended April 30, 2016 and July 31, 2016, the Company significantly reduced its expenses. During the quarter ended October 31, 2016, a Company’s expenses were lower compared to previous quarters and recorded gains on asset-backed commercial paper and a flow-through share liability to shareholders for previously renounced expenses.

The Company's net income for the first two quarters of 2017 are consistent with prior periods with no exceptional variances.

Net loss for the three months ended April 30, 2017, was \$293,185, compared to a net loss during the three months ended April 30, 2016 of \$248,024, for a difference of \$45,161. The significant expenses include:

- Administrative fees (2017: \$90,000; 2016: \$161,430) for management services provided have decreased to reflect reduced administrative requirements as the Company's activities have been reduced;
- Advertising and website expenses (2017: \$110,034; 2016: \$59,456), travel expenses (2017: \$22,648; 2016: \$34,036), and investor relations expenses (2017: \$37,879; 2016: \$16,874) have increased to reflect the additional promotion for the Company's private placements;
- Consulting fee (2017: \$16,884; 2016: \$34,780) decreases have been offset by professional fee (2017 \$21,898; 2016: \$14,007) increases, due to the nature of the Company's current activities;
- Filing fees and transfer agent costs (2017: \$9,142; 2016: \$26,558) decreased due to regulatory fees requirements of the short form in the prior year's period;
- Insurance expense (2017: \$2,823; 2016: \$2,823);
- Office, telephone and miscellaneous costs (2017: \$6,986; 2016: \$2,029);
- Interest income (2017: \$210; 2016: \$796) decreased as the Company's investments were lower in the current period;
- Other expenses (2017: \$2; 2016: \$78,875) decreased due to interest expense and penalties charged on renounced flow through expenditures using the look-back rule in the prior year's period;
- Foreign exchange gains (2017: \$1,109, 2016: \$nil) increased due to the change in exchange rates on US dollar payables;
- Gain on the disposition of asset backed commercial paper (2017: \$3,126; 2016: \$152,473) decreased due to a reduction in redemptions of investments during the current period; and
- Deferred tax recovery (2017: \$20,666; 2016: \$29,575) decreased due to the timing of flow through renunciations in the current period.

### **Liquidity and Capital Resources**

During the last three fiscal years, the Company has raised over \$14.5 million to further the Company's mineral properties and for general working capital. Of the funds raised, approximately \$11 million was spent on the properties and \$3.5 million was used for general working capital. The company believes it will be able to raise the capital required to continue to develop these properties. The Company does not have any specific work commitments or property payments, all work on the property is determined by how to best spend the funds raised, taking into consideration the Company's working capital requirements. The Company has maintained reasonable general and administrative expenditures, with advertising and promotion of the property dependent on the capital available to cover such expenditures.

The Company's present cash resources are not sufficient to meet all of its current liabilities and administrative and overhead expenses for the next eighteen months. The Company filed its amended and restated final short form prospectus on June 21, 2016 and raised additional capital to continue its work on the Eldor Property, and for general working capital requirements.

The Company will continue to require funds to further the exploration of its resource properties. As a result, the Company may have to continue to rely on equity and debt financing. There can be no assurance that financing, whether debt or equity, will always be available to the Company in the amount required at



any particular time or for any particular period or, if available, that it can be obtained on terms satisfactory to the Company.

The Company's financial success will be dependent on the economic viability of its resource properties and the extent to which it can discover and develop new mineral deposits. Such development may take several years to complete and the amount of resulting income, if any, is difficult to determine.

All of the Company's properties are in the exploration or development stage only. Development of one or both of the properties will only follow upon obtaining satisfactory results. Exploration and development of natural resources involve a high degree of risk and few properties which are explored are ultimately developed into producing properties. There is no assurance that the Company's exploration and development activities will result in any discoveries of commercial bodies of ore. The long term profitability of the Company's operations will be in part directly related to the cost and success of its exploration programs, which may be affected by a number of factors.

The Company's revenues, if any, are expected to be in large part derived from the extraction and sale of rare metals from the properties (tantalum and niobium) and rare earth elements. The price of those commodities has fluctuated widely, particularly in recent years, and is affected by numerous factors beyond the Company's control such as international, economic and political trends, expectations of inflation, currency exchange fluctuations and interest rates.

As at April 30, 2017, the Company has total assets of \$62,063,733 (October 31, 2016: \$61,395,727). The primary assets of the Company are exploration and evaluation assets of \$60,783,841 (October 31, 2016: \$60,255,060), short term investments of \$501,500 (October 31, 2016: \$76,500), asset backed commercial paper carried at \$5,471 (October 31, 2016: \$5,471), equipment of \$466,076 (October 31, 2016: \$482,332), marketable securities carried at \$40,307 (October 31, 2016: \$25,767), reclamation bonds of \$82,000 (October 31, 2016: \$82,000), mining tax receivables of \$23,116 (October 31, 2016: \$23,116), prepaid expenses of \$111,192 (October 31, 2016: \$113,580), GST/HST receivable of \$24,322 (October 31, 2016: \$78,714), and cash of \$25,908 (October 31, 2016: \$253,187). The Company has no long-term liabilities and has working capital deficiency of \$1,319,362 (October 31, 2016: \$1,971,563) as at April 30, 2017.

*Cash Used in Operating Activities:* Cash provided by operating activities during the six months ended April 30, 2017 was \$1,006,965, compared with \$1,598,083 of cash used in operating activities during the six months ended April 30, 2016.

Cash was mostly spent on advertising, investor relations, general office expenses, and professional fees, and adjusted for items not involving cash.

*Cash Used in Investing Activities:* Total cash used in investing activities during the six months ended April 30, 2017 was \$932,471, compared to \$224,958 of cash used in investing activities during the six months ended April 30, 2016.

During the six months ended April 30, 2017, the Company:

- spent \$512,525 (2016 – \$363,030) on the exploration and development of its mineral properties,
- spent \$425,000 (2016 – \$292,000) on short-term investments, and
- received \$5,054 (2016 - \$430,072) from the redemption of asset-backed commercial paper.

*Cash Provided by Financing Activities:* Cash provided by financing activities during the six months ended April 30, 2017 was \$26,826 from share subscriptions received (2016: \$nil) and \$1,685,331 from the issuance of shares (2016: \$1,829,401).

## Commitments

On May 1, 2008, the Company entered into a Management & Administration Agreement (“Agreement”) with Zimtu Capital Corp. (“Zimtu”). Under the terms of the agreement, Zimtu will provide the Company with administrative and managerial services, including corporate maintenance, continuous disclosure services, rent, and office space, over a period of 12 months.

On December 1, 2016, the Company renewed the agreement for another period of 12 months for \$30,000 per month.

## Transactions with Related Parties

During the six months ended April 30, 2017 and 2016, the Company incurred the following transactions to officers or directors of the Company or companies with common directors:

<b>Key management compensation*</b>	<b>Six months ended April 30,</b>	
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Geological services	243,100	256,551
Administrative fees	213,310	322,860
Consulting fees	2,925	-
Advertising and promotion	37,588	18,500
<b>Total</b>	<b>496,923</b>	<b>597,911</b>

  

<b>Amounts due to (from) related parties</b>	<b>April 30,</b>	<b>October 31,</b>
	<b>2017</b>	<b>2016</b>
	<b>\$</b>	<b>\$</b>
Dahrouge Geological Consulting (a)	262,261	387,407
Axel Hoppe, Director	-	20,594
Zimtu Capital Corp. (b)	792,777	496,018
<b>Due to related parties – Net total</b>	<b>1,055,038</b>	<b>904,019</b>

(a) A company controlled by a director of the Company, Jody Dahrouge.

(b) A company with common directors and management providing key management services.

\* Key management includes those persons having authority and responsibility for planning, directing and controlling the activities of the Company, directly or indirectly, including the Company’s executive officers and certain members of its Board of Directors.

The terms and conditions of these transactions with key management and their related parties were no more favourable than those available, or which might reasonably be expected to be available, or similar transactions to non-key management related entities on an arm’s length basis.

These transactions are in the normal course of operations and have been valued in these financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties. The amounts due to related parties are unsecured, non-interest bearing, and have no specific terms of repayment.

## Off Balance Sheet Arrangements

There are no off-balance sheet arrangements to which the Company is committed.

## **Subsequent Events**

- a) On May 26, 2017, the Company completed a non-brokered private placement financing (the “Financing”) of 15,710,508 units (a “Unit”), at a price of \$0.06 per Unit, for gross proceeds of \$942,630. Each Unit consists of one common share of the Company (each, a “Share”) and one share purchase warrant (each, a “Warrant”). Each Warrant is exercisable into one additional Share at a price of \$0.075 per Share in the first year after issuance and at \$0.10 per Share in the second year after issuance. The Company paid cash finders fees of \$1,918 and issued 31,962 share purchase warrants (the “Finder’s Warrants”) to one finder in connection with certain subscriptions in the Financing. The Finder’s Warrants have the same terms as the Warrants. The securities issued under the Financing, and the Shares that may be issuable on exercise of the Warrants and the Finder’s Warrants, are subject to a statutory hold period expiring on September 27, 2017.
- b) On June 5, 2017, the Company granted an aggregate of 12,997,320 stock options to its directors, officers, consultants, and employees for the purchase of up to 12,997,320 common shares of the Company at a price of \$0.065 per common share for a period of 5 years.

## **Other MD&A Requirements**

### **Additional Disclosure for Venture Issuers without Significant Revenue**

As the Company has not had significant revenue from operations in either of its last two financial years, the following is a breakdown of the material costs incurred:

	<b><u>Year Ended</u></b> <b><u>October 31, 2016</u></b>	<b><u>Year ended</u></b> <b><u>October 31, 2015</u></b>
Capitalized or Expensed Exploration and Development Costs	\$1,904,988	\$9,006,544
General and Administration Expenses	\$1,390,027	\$1,931,446

### **Disclosure of Outstanding Share Capital**

The following is a breakdown of the share capital of the Company, on an annual basis and the date of this report:

	<b><u>June 15, 2017</u></b>	<b><u>April 30, 2017</u></b>	<b><u>October 31, 2016</u></b>	<b><u>October 31, 2015</u></b>
Common Shares	309,569,908	293,859,400	259,508,950	216,462,364
Stock Options	3,830,000	3,830,000	3,830,000	6,915,000
Warrants	69,359,623	53,649,115	19,298,665	6,058,550
Agents’ Warrants	3,030,908	2,998,946	2,739,946	1,767,502
Fully Diluted Shares	385,790,439	354,337,461	285,477,561	231,203,416

For additional details of outstanding share capital, refer to Notes 9 and 10 of the condensed interim financial statements for the six months ended April 30, 2017.

## **Future Accounting Pronouncements**

Pronouncements that are not applicable to the Company have not been included in these financial statements

### ***IAS 1 - Presentation of Financial Statements***

In December 2014, the International Accounting Standards Board (IASB) issued amendments to IAS 1, incorporated into Part I of the CPA Canada Handbook - Accounting by the Accounting Standards Board (AcSB) in April 2015. The amendments are part of the IASB’s Disclosure Initiative to address some of the concerns expressed about existing presentation and disclosure requirements and to ensure entities are able to use judgment when preparing their financial statements. These amendments are effective for annual

periods beginning on or after January 1, 2016. The extent of the impact of adoption of the standard has not yet been determined.

#### ***IFRS 9 - Financial instruments (“IFRS 9”)***

In July 2014, the International Accounting Standards Board (IASB) issued the final version of IFRS 9 (2014), incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in February 2015, as a complete standard including the requirements previously issued and the additional amendments to introduce a new expected loss impairment model and limited changes to the classification and measurement requirements for financial assets. This standard will replace IAS 39 Financial Instruments: Recognition and Measurement.

IFRS 9 (2014) is effective for reporting periods beginning on or after January 1, 2018 with early adoption permitted (subject to local endorsement requirements). The extent of the impact of adoption of the standard has not yet been determined.

#### ***IAS 7 - Statement of Cash Flows (Amendment)***

In January 2016, the International Accounting Standards Board (IASB) issued amendments to IAS 7 which were incorporated into Part I of the CPA Canada Handbook – Accounting by the Accounting Standards Board (AcSB) in April 2016. The amendments are part of the IASB’s Disclosure Initiative to address some of the concerns expressed about existing presentation and disclosure requirements. The amendments require entities to provide disclosures that enable users of the financial statements to evaluate both cash flow and non-cash changes in liabilities arising from financing activities.

These amendments are effective for annual periods beginning on or after January 1, 2017. Earlier application is permitted. The extent of the impact of adoption of the standard has not yet been determined.

#### ***IFRS 16 - Leases***

On January 13, 2016, the International Accounting Standards Board published a new standard, IFRS 16, Leases, eliminating the current dual accounting model for lessees, which distinguishes between on-balance sheet finance leases and off-balance sheet operating leases. Under the new standard, a lease becomes an on-balance sheet liability that attracts interest, together with a new right-of-use asset. In addition, lessees will recognize a front-loaded pattern of expense for most leases, even when cash rentals are constant. IFRS 16 is effective for annual periods beginning on or after January 1, 2019, with earlier adoption permitted. The extent of the impact of adoption of the standard has not yet been determined.

### **Financial Instruments**

The Company’s risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions and the Company’s activities. The Company has exposure to credit risk, liquidity risk and market risk as a result of its use of financial instruments. This note presents information about the Company’s exposure to each of the above risks and the Company’s objectives, policies and processes for measuring and managing these risks. Further quantitative disclosures are included throughout these financial statements.

The Board of Directors has overall responsibility for the establishment and oversight of the Company’s risk management framework. The Board has implemented and monitors compliance with risk management policies as set out herein.

a) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. The Company's cash, short term investments, amounts receivable, due from related parties and investments in asset-backed commercial paper are subject to credit risk for a maximum of the amounts shown on the statements of financial position. The Company monitors its credit risk management practices continuously to evaluate their effectiveness.

At April 30, 2017, the Company held cash of \$25,908 (October 31, 2016: \$253,187) and short term investments of \$501,500 (October 31, 2016: \$76,500) with Canadian chartered banks. The Company also held asset-backed commercial paper fair valued at \$5,471 (October 31, 2016: \$5,471). The Company mitigates credit risk on these financial instruments by adhering to its investment policy that outlines credit risk parameters and concentration limits.

b) Liquidity Risk

Liquidity risk is the risk that the Company will incur difficulties meeting its financial obligations as they are due. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions without incurring unacceptable losses or risking harm to the Company's reputation.

As at April 30, 2017, the Company has total current liabilities of \$2,045,707 (October 31, 2016: 2,542,427). Management intends to meet the financial obligations by raising funds through future financings.

c) Market Risk

Market risk consists of currency risk, commodity price risk and interest rate risk. The objective of market risk management is to manage and control market risk exposures within acceptable limits, while maximizing returns. The Company's marketable securities and investment in asset-backed commercial paper are subject to market risk.

i) Currency Risk

Foreign currency exchange rate risk is the risk that the fair value or future cash flows will fluctuate as a result of changes in foreign exchange rates. Although the Company is in the exploration stage and has not yet developed commercial mineral interests, the underlying commodity price for minerals is impacted by changes in the exchange rate between the Canadian and United States dollar. As all of the Company's transactions are denominated in Canadian dollars, the Company is not significantly exposed to foreign currency exchange risk at this time.

ii) Commodity Price Risk

Commodity price risk is the risk that the fair value of future cash flows will fluctuate as a result of changes in commodity prices. Commodity prices for minerals are impacted by world economic events that dictate the levels of supply and demand as well as the relationship between the Canadian and United States dollar, as outlined above. As the Company has not yet developed commercial mineral interests, it is not exposed to commodity price risk at this time.

iii) Interest Rate Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company invest part of the cash balance in a variable rate GIC. The exposure to interest rate risk, however, is limited due to the short-term nature of the GIC.

d) Fair Value

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The following is an analysis of the Company’s financial assets measured at fair value as at April 30, 2017 and October 31, 2016:

	As at April 30, 2017		
	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 25,908	\$ -	\$ -
Short term investments	501,500	-	-
Marketable securities	40,307	-	-
Asset-backed commercial paper	-	-	5,471
	\$ 567,715	\$ -	\$ 5,471

  

	As at October 31, 2016		
	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 253,187	\$ -	\$ -
Short term investments	76,500	-	-
Marketable securities	25,767	-	-
Asset-backed commercial paper	-	-	5,471
	\$ 355,454	\$ -	\$ 5,471

Level 3 financial assets consist of the following investments in ABCP including Master Asset Vehicle II (“MAV II”) notes and Ineligible Asset Tracking notes as at April 30, 2017 and October 31, 2016:

	April 30, 2017			October 31, 2016		
	Face value	Fair value variances	Fair value	Face value	Fair value variances	Fair value
<b>Ineligible Asset</b>						
Tracking Notes	76,722	(71,251)	5,471	81,500	(76,029)	5,471
	76,722	(71,251)	5,471	81,500	(76,029)	5,471

The MAV II notes received as a result of the restructuring of third party sponsored ABCP by the Pan-Canadian Investors Committee in January 2009 include a pooling of leveraged investments as well as traditional assets and cash. The leveraged investments are subject to a potential requirement post

additional collateral based on certain triggers being met (a margin call). Traditional assets are unlevered investments and include residential and commercial mortgage backed securities, corporate credit and cash equivalents. Class A-1, Class A-2 and Class B Notes will bear interest at the Bankers' Acceptance ("BA") rate less 0.50% and Class C Notes will bear interests at the BA rate plus 20%.

The IA Tracking Notes will bear interest at a rate based on the net rate of return generated by the underlying tracking assets. The maturities of the notes are based on the maturities of the underlying assets. These notes will not be rated.

The Company is aware of a number of trades in the restructured notes that have occurred prior to April 30, 2017, but does not consider them to constitute an active market. Accordingly, the Company has not used these trades to determine the fair value of its notes. As described in Note 6 of the financial statements for the six months ended April 30, 2017, the Company has used a probability weighted discounted cash flows approach to determine the fair value of these investments, incorporating available information regarding market conditions as at the measurement date, April 30, 2017 and October 31, 2016. These estimates arrived at by the Company are subject to measurement uncertainty and are dependent on market conditions as at the measurement date.

If an active market for the restructured notes were to develop in the future, the Company would change its valuation technique to determine the fair value of its notes using quoted market prices.

#### e) Capital Management

Capital is comprised of the Company's shareholders' equity and any debt it may issue. As at April 30, 2017, the Company's shareholders' equity was \$60,018,026 (October 31, 2016: \$58,853,300). The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue the exploration of its mineral properties. Therefore, the Company monitors the level of risk incurred in its mineral property expenditures relative to its capital structure which is comprised of working capital and shareholders' equity.

The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to facilitate the management of capital and the exploration of its mineral properties, the Company prepares annual expenditure budgets which are updated as necessary and are reviewed and periodically approved by the Company's Board of Directors. To maintain or adjust the capital structure, the Company may issue new equity if available on favourable terms, option its mineral properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of mineral properties.

### **Industry and Economic Factors Affecting Performance**

As a mineral exploration and development company, Commerce's performance is affected by a number of industry and economic factors and exposure to certain environmental risks and regulatory requirements. These include metal prices, competition amongst exploration firms for attractive mineral properties, the interest of investors in providing high-risk equity capital to exploration companies, and the availability of qualified staff and equipment such as drilling rigs to conduct exploration.

### **Risk Factors**

Mineral exploration and development involves a high degree of risk such that few properties, which are explored, are ultimately developed into producing mines. With respect to the Company's properties, where mineral resources exist, substantial expenditures will be required to confirm ore reserves which are

sufficient to commercially mine and to obtain the required environmental approvals and permitting required to commence commercial operations. Should any mineral resource be defined on such properties there can be no assurance that the mineral resources on such properties can be commercially mined or that the metallurgical processing will produce economically viable saleable products. The decision as to whether a property contains a commercial mineral deposit and should be brought into production will depend upon the results of exploration programs and/or feasibility studies, and the recommendations of duly qualified engineers and/or geologists, all of which involves significant expense. This decision will involve consideration and evaluation of several significant factors including, but not limited to: (1) costs of bringing a property into production, including exploration and development work, preparation of production feasibility studies and construction of production facilities; (2) availability and costs of financing; (3) ongoing costs of production; (4) market prices for the minerals to be produced; (5) environmental compliance regulations and restraints (including potential environmental liabilities associated with historical exploration activities); and (6) political climate and/or governmental regulation and control.

### ***Environmental Risks and Other Regulatory Requirements***

Any future operations of the Company, including development activities and commencement of production on its properties, will require permits from various federal and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. In addition, agreements may be required with local native people groups that could have a material effect on the Company's operations. Companies engaged in the development and operation of mines and related facilities generally experience increased costs and delays in production and other schedules as a result of the need to comply with the applicable laws, regulations and permits. There can be no assurance that all permits which the Company may require for the construction of mining facilities and conduct of mining operations will be obtainable on reasonable terms or that such laws and regulations would not have an adverse effect on any mining project which the Company might undertake. Failure to comply with applicable laws, regulations and permitting requirements may result in enforcement actions including orders issued by regulatory or judicial authorities causing operations to cease or be curtailed, and may include corrective measures requiring capital expenditures, installation of additional equipment or remedial actions. Parties engaged in mining operations may be required to compensate those suffering loss or damage by reason of the mining activities and may have civil or criminal fines or penalties imposed upon them for violation of applicable laws or regulations. Amendments to current laws, regulations and permits governing operations and activities of mining companies, or more stringent implementation thereof, could have a material adverse impact on the Company and cause increases in capital expenditures or production costs or reduction in levels of production at producing properties or require abandonment or delays in the development of new mining properties.

### ***Management***

The Company is dependent on a relatively small number of key personnel, the loss of any of whom could have an adverse effect on the Company.

### **Forward Looking Statements**

This Management Discussion & Analysis may contain forward-looking information and is subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ from those projected in the forward-looking statements.

*Readers can identify many of these statements by looking for words such as "believes", "expects", "will", "intends", "projects", "anticipates", "estimates", "continues" or similar words or the negative thereof.*



Forward-looking information is based on the opinions and estimates of management and its consultants at the date the information is given. It is subject to a variety of risks and uncertainties and other factors that could cause actual events or results to differ materially from those projected in the forward-looking information. The information is based on reasonable assumptions which include but are not limited to those regarding actual costs for mining and processing and their impact on the cut-off grade established, actual capital costs, forecasts of mine production rates, the timing and content of upcoming work programs, geological interpretations, potential process methods and mineral recoveries, the availability of markets for the products produced, market pricing for the products produced, etc.

Factors that could cause actual results to differ materially from those in forward-looking statements include market prices for metals, the conclusions of detailed feasibility and technical analyses, lower than expected grades and quantities of resources, mining rates and recovery rates and the lack of availability of necessary capital, which may not be available to the Company on terms acceptable to it or at all.

Forward-looking statements address future events and conditions and therefore involve inherent risks and uncertainties. Actual results may differ materially from those currently anticipated in such statements. There can be no assurance that the plan, intentions or expectations upon which these forward looking statements are based will occur. Forward looking statements are subject to risks, uncertainties and assumptions. Although the Company believes the expectations expressed in such forward-looking statements are based on reasonable assumptions, such statements should not be in any way construed as guarantees of future performance and actual results or developments may differ materially from those in the forward-looking statements.

Readers are cautioned not to put undue reliance on forward-looking statements. The Company does not undertake to update any forward-looking statements that are contained herein, except in accordance with applicable securities laws.

### **Approval**

The Board of Directors of Commerce Resources Corp. has approved the disclosure contained in this MD&A.

### **Additional Information**

Additional information related to the Company can be found on the Company's website at [www.commerceresources.com](http://www.commerceresources.com) or on SEDAR at [www.sedar.com](http://www.sedar.com).