



## COMMERCE RESOURCES CORP.

### **Management Discussion & Analysis for the year ended October 31, 2006**

The following discussion and analysis of the operations, results, and financial position of the Company for the year ended October 31, 2006 should be read in conjunction with the audited financial statements and the related Notes. The effective date of this report is February 28, 2007.

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

Commerce Resources Corp. (the “Company”) is a development stage company engaged in the acquisition and exploration of mineral properties in British Columbia. The Company is currently focusing its exploration activities on tantalum and niobium, and holds an interest in two mineral deposits located in the Kamloops Mining Division of central British Columbia. The Company is a reporting issuer in British Columbia and Alberta and trades on the TSX Venture Exchange under the symbol CCE.

#### **FIR Tantalum/Niobium Property**

The Fir property is located in the Kamloops Mining Division of British Columbia, approximately 30 kilometers north of Blue River, British Columbia. The Company acquired a 100% interest in 69 units by staking in early 2000 and is not subject to any underlying royalties. On January 24, 2007, the Company announced that it had entered into an agreement to acquire a 100% interest in three mineral claims adjacent to the Fir claims. These three claims were purchased for their potential to host additional mineralization, as well as ensuring mineral tenure under area of potential importance for future infrastructure related to mine development. On February 26, 2007, the Company also announced that it had staked an additional 79 mineral claims adjacent to the east of Blue River project. The property now measures approximately 25 kilometres east to west by about 20 km north to south and encompasses about 500 square km.

Previously, the Company had conducted exploration of the Fir Property which included sampling, 11 drill holes and detailed metallurgical investigations. The Company has outlined an inferred resource for the Fir property totalling 6.74 million tonnes grading 203.1 gpt Ta<sub>2</sub>O<sub>5</sub> and 1,047 gpt Nb<sub>2</sub>O<sub>5</sub>. The Fir is also host to an indicated resource of 5.65 million tonnes grading 203.1 gpt Ta<sub>2</sub>O<sub>5</sub> and 1,047 gpt Nb<sub>2</sub>O<sub>5</sub>. This resource estimate was prepared in accordance with the requirements of NI 43-101 by the Company’s Qualified Person, Ruben Verzosa, P.Eng., as set out in his technical report dated March 6, 2003 and revised on November 30, 2004. The complete report is available on Sedar at [www.sedar.com](http://www.sedar.com).

#### **Exploration Program & Results**

The results of the 2005 drilling demonstrated that the grade and tenor of the mineralization at the Fir Property’s Upper Fir carbonatite was comparable with that previously encountered at the Fir carbonatite. At the Upper Fir carbonatite, mineralized intercepts varied from 8.75 m to 17 m, over a strike length of about 250 m. The deposit remains open in all directions.

A soil geochemical survey and radiometric survey was completed in May, 2006, over the presumed extensions to the Upper Fir and nearby Bone Creek carbonatites. Based on the favourable results, the extensions to these carbonatites were verified by trenching and diamond drilling.

In July, 2006, the Company announced that it had retained the services of Gartner Lee Ltd. in anticipation of the project entering the regulatory permitting process. Gartner Lee initiated preliminary baseline data

compilation and scoping for the approvals required for the project. Under the supervision of Charlotte Mougeot (Calgary, Alta.), the environmental team will work closely with the geological and engineering teams to provide an integrated baseline program using public sources of information and site-specific field programs. To date, environmental field programs have been conducted which included water sampling, fisheries work, and preliminary soil and vegetation surveys. This work coincided with the trenching and drilling in the 2006 exploration program.

Prior soil geochemical programs have shown an extensive soil geochemical anomaly, presumably associated with the Upper Fir carbonatite. This anomaly was trenched, in five separate locations and initial results confirmed the presence of carbonatite in trenches and in outcrop.

On August 10, 2006, the Company announced that their exploration program had led to the discovery of an extensive outcropping of carbonatite, proximal to the Upper Fir carbonatite. The outcrop was discovered using information from the current trenching and drill program.

In December, 2006, the Company announced the results of the 2006 exploration drill program. In total, 21 holes were completed, four during the fall of 2005 and 17 during the summer/fall of 2006. Essentially, 20 of the 21 holes intersected carbonatite host rock and were completed within an area measuring 750 metres north-south, by 200 m east-west. Drilled thickness varied from 8.77 m to 95.70 m. In some cases, the drilled thickness may exceed the true thickness by 10 to 15%, owing to the interpreted shallow east dip of the carbonatite, and the orientation of the drill holes. Average grades of carbonatite for the 17 holes completed in 2006 range from 147 to 237 grams per tonne Ta(2)O<sub>5</sub>, and 567 to 1,941 g/t Nb(2)O<sub>5</sub>.

A resource calculation on the Upper Fir carbonatite is pending.

#### *New exploration potential for the Upper Fir*

During the 2006 exploration program, a small program of regional reconnaissance exploration identified a number of new tantalum, niobium and rare-earth-element-bearing carbonatite occurrences at locations east of the Fir and upper Fir carbonatites. Exploration has suggested that some of the existing carbonatite bodies in the Blue River area may be much larger than expected, and that an intrusive centre may exist to the east of the Upper Fir carbonatite.

#### VERITY Tantalum/Niobium Property

The Verity property is located in the Kamloops Mining Division of British Columbia, approximately 40 kilometers north of the town of Blue River. The Company acquired a 100% interest in 136 units by staking in early 2000 and therefore is not subject to any underlying royalties.

Prior to the current year, the property has seen detailed exploration including detailed sampling and 35 drill holes. The Company has outlined an inferred resource for the Verity property totaling 3.06 million tonnes grading 196 gpt Ta<sub>2</sub>O<sub>5</sub> and 646 gpt Nb<sub>2</sub>O<sub>5</sub>. This resource estimate was prepared in accordance with the requirements of NI 43-101 by the Company's Qualified Person, James McCrea, P.Geo. as set out in his technical report dated June 12, 2001. The complete report is available on Sedar at [www.sedar.com](http://www.sedar.com).

#### AU Property

In February, 2006, the Company completed a property option and joint operation agreement on its historic gold and copper targets known as the Au Claims with Victory Resources Corp. (TSXv: VR) ("Victory"). The Company and a third party (the "Optionors") have granted Victory an option to acquire, subject to an underlying 2% net smelter return royalty, up to an undivided 70% interest in and to certain mineral property interests comprised of two claim blocks (104 units totalling 2,600 hectares) which are located in the Nicola Mining Division approximately 30 kilometres east of Merritt, British Columbia (collectively, the "Property").

In accordance with the terms of the Option Agreement, and in order to exercise its Option to acquire up to

an initial 50% undivided interest in and to the mineral interests comprising the Property, Victory is required to:

- (a) Cash payments: pay to the Optionors cash payments in the aggregate of \$20,000 in the following manner: (i) \$10,000 within two business days of the execution of the Option Agreement (paid); and (ii) \$10,000 on or before March 1, 2006 (paid);
- (b) Share issuances: issue to the Optionors a total of up to 200,000 fully paid and non-assessable common shares in the capital of Victory, at a deemed issuance price of \$0.30 per share: (i) 100,000 upon approval of the TSX Venture Exchange (issued), and (ii) the final 100,000 of the shares on or before March 1, 2006 (issued); and
- (c) Expenditure requirements: provide funding of minimum cumulative expenditures for exploration and development work on the mineral interests comprising the Property of at least \$250,000 on or before March 1, 2007 (completed).

In addition, and in accordance with the terms of the Option Agreement, once Victory earned its initial 50% undivided interest in and to the Property, Victory will have the option to acquire a further 20% undivided interest in and to the Property by paying to the Optionors, on or before the third anniversary date of the Option Agreement, additional consideration of: (i) \$10,000 in cash; and (ii) 50,000 fully paid and non-assessable common shares. Victory and the Optionors agreed that Victory could acquire the remaining 50% interest in the Property by paying to the Optionors \$10,000 cash and issuing them 100,000 common shares. This was completed in December, 2006 and the remaining 50% in the Property was transferred to Victory. The Company no longer holds any interest in the AU Property.

## **Results of Operations**

### General and Administrative

Net loss for the year ended October 31, 2006 was \$1,357,654 compared to a net loss of \$310,432 for the comparative year ended October 31, 2005. This difference is due primarily to the increase in advertising and website (2006: \$196,083, 2005: \$40,959), an increase in consulting fees (2006: \$83,296, 2005: \$13,689), an increase in investor relations activities (2006: \$131,361, 2005: \$16,817) and an increase in the compensation charge associated with stock based compensation (2006: \$622,929, 2005: \$10,000). There were no resource properties written off during the year ended October 31, 2006. Administrative expenses for the year ended October 31, 2006 were \$1,419,901 compared to \$334,133 in the comparative year ended 2005.

### Investor Relations

During the year ended October 31, 2006, the Company incurred investor relations charges of \$131,361 compared to \$16,817 during the comparative year ended October 31, 2005. The Company currently has an investor relations' agreement with Axino AG, a German investor relations firm that handles investor relations activities in Germany and other European countries. All other activities and inquiries are handled internally by office staff.

### Selected Annual Information

The following is a summary of the financial data of the Company for the last three completed fiscal year ends:

	Fiscal year ended October 31		
	2006	2005	2004
Total Revenues	Nil	Nil	Nil
Income (loss) from continuing operations	(1,357,654)	(310,432)	(605,618)
Income from continuing operations (per share)	(0.03)	(0.01)	(0.03)

	Fiscal year ended October 31		
	2006	2005	2004
Income from continuing operations (per share, fully diluted)	(0.03)	(0.01)	(0.03)
Net Income (loss)	(1,357,654)	(310,432)	(605,618)
Net Income (loss) (per share)	(0.03)	(0.01)	(0.03)
Net income (loss) (per share, fully diluted)	(0.03)	(0.01)	(0.03)
Total Assets	5,714,383	1,281,392	1,135,693
Total long term financial liabilities	Nil	Nil	Nil
Cash dividend declared per share	Nil	Nil	Nil

### Summary of Quarterly Results

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

	October 31, 2006	July 31, 2006	April 30, 2006	January 31, 2006	October 31, 2005	July 31, 2005	April 30, 2005	January 31, 2005
Revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Income (loss) before discontinued and extraordinary items (Total)	(641,383)	(178,499)	(426,344)	(111,428)	(64,430)	(78,683)	(66,119)	(101,200)
Basic and diluted loss before discontinued and extraordinary items (Per share)	(0.03)	(0.01)	(0.01)	(0.00)	(0.01)	0.00	0.00	0.00
Net income (loss) (total)	(641,383)	(178,499)	(426,344)	(111,428)	(64,430)	(78,683)	(66,119)	(101,200)
Basic and diluted net loss (per share)	(0.03)	(0.01)	(0.01)	(0.00)	(0.01)	0.00	0.00	0.00

### Liquidity and Solvency

The Company has total assets of \$5,714,383. The primary assets of the Company are deferred resource property costs of \$2,137,422, marketable securities carried at \$53,352 and cash of \$3,182,794. The Company has no long-term liabilities and working capital of \$3,453,477.

### Capital Resources

The Company has no specific work commitments on its resource properties but, as discussed above, will continue to perform exploration work on its Blue River properties.

### Off Balance Sheet Arrangements

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

### Transactions with Related Parties

The Company incurred charges with directors of the Company and a company with a common director as follows:

	Year ended	
	October 31, 2006	October 31, 2005
Administration fees	\$24,300	\$25,200
Consulting fees	-	4,149
Deferred exploration and development costs	427,715	5,505
Office, telephone and miscellaneous	26,700	-
Rent	28,500	14,000
Wages and benefits	<u>94,250</u>	<u>91,494</u>

\$601,465

\$140,348

These charges were measured by the exchange amount, which is the amount agreed upon by the transacting parties.

At October 31, 2006, due from related parties of \$Nil (October 31, 2005: \$40,208) is due from a director of the Company and a company with a director in common. The amounts are unsecured, non-interest bearing and have no specific terms of repayment.

At October 31, 2006, accounts payable includes \$53,512 (October 31, 2005: \$35,652) due to directors of the Company and to a company with a common director.

#### Financial Instruments and Other Instruments

The carrying value of the Company's financial instruments, consisting of cash and cash equivalents, marketable securities, amounts receivable, share subscriptions receivable and accounts payable approximate their fair values due to the short maturity of such instruments. The fair market value of due from related parties is also assumed to approximate their carrying amount. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

#### **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:

	Year ended October 31, 2006	Year ended October 31, 2005
Capitalized or Expensed Exploration and Development Costs	\$1,021,794	\$157,820
General and Administration Expenses	\$1,419,901	\$334,133
Loss on sale of marketable securities	-	\$13,691

##### Disclosure of Outstanding Share Capital

*Authorized:* 100,000,000 common shares without par value

*Issued:*

	Number	Amount
<b>Balance, October 31, 2004</b>	<b>21,333,574</b>	<b>\$ 3,055,540</b>
- Issued pursuant to a private placement (\$0.15)	1,300,000	\$ 195,000
- Less finders fee	-	(5,250)
- Issued pursuant to the exercise of warrants		
- at \$0.10	1,020,851	\$ 102,085
- at \$0.12	536,000	\$ 64,320
- at \$0.14	103,000	\$ 14,420
- Issued pursuant to the exercise of options		
- at \$0.10	25,000	\$ 2,500
- at \$0.13	20,000	\$ 2,600
- Transfer of contributed surplus on exercise of options	-	\$ 3,500
- Issued pursuant to the conversion of the convertible debenture		
Principal - at \$0.12	2,083,333	\$ 250,000
Interest - at \$0.15	400,000	\$ 60,000
<b>Balance, as at October 31, 2005</b>	<b>26,821,758</b>	<b>\$ 3,744,715</b>

		Number		Amount
- Issued pursuant to a private placement				
	- at \$0.12	2,441,000	\$	292,920
	- at \$0.16	930,950	\$	148,952
	- at \$0.12	8,135,000	\$	976,200
	- at \$0.30	12,944,477	\$	3,883,343
- Less finders' fees		-		(191,157)
- Finders' fees on private placements		163,666		-
- Issued pursuant to the exercise of warrants				
	- at \$0.18	1,291,500	\$	232,470
- Issued pursuant to the exercise of options				
	- at \$0.10	350,000	\$	35,000
	- at \$0.13	140,000	\$	18,200
	- at \$0.18	30,000	\$	5,400
	- at \$0.21	62,000	\$	13,020
- Recovery of future income tax asset			\$	(50,822)
- Transfer of contributed surplus on exercise of options		-	\$	47,784
<b>Balance, as at October 31, 2006</b>		<b><u>53,310,351</u></b>	<b><u>\$</u></b>	<b><u>9,156,025</u></b>

*Commitments:*

Stock-based Compensation Plan: The Company has granted employees and directors common share purchase options. These options were granted with an exercise price equal to their fair value on the date of the grant and vest immediately. Options outstanding and exercisable at the year ended October 31, 2006:

	2006		2005	
	Shares	Weighted Average Exercise Price	Shares	Weighted Average Exercise Price
Outstanding at the beginning of the year	1,765,000	\$0.12	1,960,000	\$0.11
Granted	3,910,000	\$0.26	100,000	\$0.20
Exercised	(582,000)	\$0.12	(45,000)	\$0.11
Cancelled/Expired	(500,000)	\$0.14	(250,000)	\$0.10
Options outstanding, end of the year	<u>4,593,000</u>	<u>\$0.24</u>	<u>1,765,000</u>	<u>\$0.12</u>
Options exercisable, end of the year	<u>4,405,500</u>	<u>\$0.23</u>	<u>1,765,000</u>	<u>\$0.12</u>

At October 31, 2006, the Company had 4,593,000 share purchase options outstanding entitling the holders thereof the right to purchase one common share as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
100,000	\$0.20	January 6, 2007
300,000	\$0.10	January 23, 2007
375,000	\$0.10	July 24, 2007
250,000	\$0.50	June 9, 2008
750,000	\$0.15	February 6, 2011
720,000	\$0.18	February 20, 2011
363,000	\$0.21	February 20, 2011
500,000	\$0.30	March 15, 2011
135,000	\$0.35	September 14, 2011
500,000	\$0.30	September 27, 2011
550,000	\$0.35	September 27, 2011
<u>50,000</u>	\$0.40	September 27, 2011
<u>4,593,000</u>		

Share Purchase Warrants: As at the year ended October 31, 2006, the following share purchase warrants were outstanding, entitling the holder thereof the right to purchase one common share:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
2,230,450	\$0.18	November 25, 2006*
385,000	\$0.18	December 6, 2006*
7,600,000	\$0.18	December 20, 2006*
2,083,333	\$0.12	January 18, 2007*
9,517,478	\$0.45	September 25, 2007
<u>3,426,999</u>	\$0.45	October 13, 2007
<u>25,243,260</u>		

\*Subsequent to October 31, 2006:

- a) 12,278,783 share purchase warrants expiring on or before January 18, 2007 were exercised at \$0.12 - \$0.18 for total proceeds of \$2,079,421;
- b) 20,000 share purchase warrants with an exercise price of \$0.18 per share expired unexercised.

### **Proposed Transactions and Subsequent Events**

Subsequent to October 31, 2006, the Company:

- a) Issued 1,585,625 common shares pursuant to a private placement of units at \$0.32 per unit for total proceeds of \$507,400. Each unit consists of one flow-through common share and one share purchase warrant entitling the holder thereof to purchase an additional common share for each warrant held for \$0.42 per share for a period of two years.
- b) Acquired a 100% interest in three mineral claims located in the Blue River region of British Columbia for total consideration of \$25,000. These claims are adjacent to the Company's Fir claims;
- c) Staked an additional 79 mineral claims located in the Blue River region of British Columbia for a total cost of \$14,197. These claims are adjacent to the east of the Company's Verity and Fir claims.

### **Additional Information**

Additional information about the Company can be found on [www.sedar.com](http://www.sedar.com).