



COMMERCE RESOURCES CORP.

## **Management Discussion & Analysis for the Year ended October 31, 2010**

The following is a discussion and analysis of the operations, results, and financial position of Commerce Resources Corp. (the “Company” or “Commerce”) for the year ended October 31, 2010, and should be read in conjunction with the audited financial statements for the year ended October 31, 2010, all of which were prepared in accordance with Canadian generally accepted accounting principals.

The effective date of this report is February 21, 2010.

### **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.

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

Commerce Resources Corp. is a Canadian mineral exploration and development company, listed as a Tier 1 Issuer on the TSX Venture Exchange in Canada, the OTCQX in the United States of America, and on the Frankfurt Stock Exchange in Germany. The Company's primary focus is on tantalum, niobium and rare earth elements ("REEs"):

**Tantalum** is an element found in many ways in our everyday lives, improving technology and material performance. Its many applications include use in electronics, medicine, engineering and energy generation. Tantalum has unique attributes that make it suitable for several specific purposes; it has an exceedingly high melting point (about 3,000° C); is highly corrosion-resistant; alloys well with other metals; is superconductive for electricity; has an excellent capacity to store and release an electrical charge. Tantalum metal and tantalum pentoxide (Ta<sub>2</sub>O<sub>5</sub>), one of tantalum's compounds, are mainly used in electronics to make a component called a capacitor. It allows the capacitors to be very small and is ideal for high technology uses including digital cameras and video cameras, mobile phones, laptop computers, LCD/Plasma televisions, and data storage devices.

**Niobium** possesses a unique complex of properties like heat resistance, high thermal conductivity, elasticity, corrosion resistance and the ability to form a stable and adhesive layer of oxide. Due to these properties, niobium and its alloys are widely used in chemistry, metallurgy and electronics as well as in the medical, nuclear, and aerospace industries. Niobium is used mostly to make stainless steel and high-strength, low-alloy steels. These steels are used in large-diameter pipelines for oil and natural gas, in frames and wheels of cars and trucks and as microalloyed steel in structural applications.

**REEs** are a collection of seventeen chemical elements in the periodic table, namely scandium, yttrium, and the fifteen lanthanides. Rare earth elements are incorporated into many modern technological devices, including superconductors, samarium-cobalt and neodymium-iron-boron high-flux rare-earth magnets, electronic polishers, refining catalysts and hybrid car components (primarily batteries and magnets).

## **Properties**

The Company is in the process of exploring three mineral projects located in Canada: the Blue River Tantalum-Niobium Project, and the Eldor and Carbo Rare Earth Projects. The Blue River Project is at an advanced stage of exploration and is the Company's flagship project.

The technical information included in this MD&A unless otherwise stated, has been reviewed by Jody Dahrouge, P. Geol., a director of the Company. Mr. Dahrouge is a Qualified Person under National Instrument 43-101.

## **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 Blue River, British Columbia and is owned 100% with no underlying royalties.

AMEC Americas Limited ("AMEC") completed the "Blue River Ta-Nb Project, NI 43-101 Technical Report, Blue River, British Columbia" with an effective date of January 31, 2011, and determined a base case Indicated mineral resource of 36.35 million tonnes containing 195 ppm (gpt) Ta<sub>2</sub>O<sub>5</sub> and 1,700 ppm (gpt) Nb<sub>2</sub>O<sub>5</sub>. Base case Inferred mineral resources are 6.40 million tonnes containing 199 ppm (gpt) Ta<sub>2</sub>O<sub>5</sub> and 1890 ppm (gpt) Nb<sub>2</sub>O<sub>5</sub>.

AMEC used a total of 183 drill holes comprising 37,446 metres of HQ drill core and 8,218 sawn core samples to develop the mineral resource estimate. Most holes were at a nominal spacing of 50m with dips typically between -60 to sub-vertical.

**Table 1**  
Blue River Project Estimated Mineral Resources.  
Tomasz Postolski, P.Eng, Qualified Person

Confidence Category	Tonnes	Ta <sub>2</sub> O <sub>5</sub> [ppm]	Nb <sub>2</sub> O <sub>5</sub> [ppm]	ContainedTa <sub>2</sub> O <sub>5</sub> [1000s of kg]	ContainedNb <sub>2</sub> O <sub>5</sub> [1000s of kg]
Indicated	36,350,000	195	1,700	7,090	61,650
Inferred	6,400,000	199	1,890	1,300	12,100

1. Assumptions include US\$317/kg Ta, US\$46/kg Nb, 65.4% Ta<sub>2</sub>O<sub>5</sub> recovery, 68.2% Nb<sub>2</sub>O<sub>5</sub> recovery, US\$32/tonne mining cost, US\$17/tonne process and refining cost. Mining losses = 0% and dilution = 0%.
2. Mineral resources are amenable to underground mining methods and have been constrained using a “Stope Analyzer”.
3. An economic cut-off was based on the Ta and Nb values per block which is variable based on the location of blocks used in the mineral resource estimate. A block unit value cut-off ranged from \$52 to \$59.
4. Discrepancies in contained oxide values are due to rounding.
5. In situ contained oxide reported.

The mineral resource estimate is supported by a base case price assumption of US\$317/kg Ta, which is significantly higher than historic average prices. Market analysts are in general agreement that current political and market conditions support the probability of sustained higher prices, but this may not occur.

Table 2 below shows the sensitivity of the Blue River mineral resources to tantalum metal price. Sensitivities are based on a fluctuating metal price but could also represent fluctuating mining or processing costs or metallurgical recoveries or a combination of all of these factors.

**Table 2:**  
Blue River Project Sensitivity of Estimated Mineral Resources to Tantalum Price:  
Tomasz Postolski, P.Eng, Qualified Person

Ta price [US\$/kg]	Confidence Category	Tonnes	Ta <sub>2</sub> O <sub>5</sub> [ppm]	Nb <sub>2</sub> O <sub>5</sub> [ppm]	ContainedTa <sub>2</sub> O <sub>5</sub> [1000s of kg]	ContainedNb <sub>2</sub> O <sub>5</sub> [1000s of kg]
470	Indicated	51,130,000	188	1,410	9,610	72,300
	Inferred	8,100,000	192	1,700	1,600	13,800
381	Indicated	44,430,000	192	1,530	8,530	68,020
	Inferred	7,300,000	196	1,780	1,400	13,000
<b>317</b>	<b>Indicated</b>	<b>36,350,000</b>	<b>195</b>	<b>1,700</b>	<b>7,090</b>	<b>61,650</b>
	<b>Inferred</b>	<b>6,400,000</b>	<b>199</b>	<b>1,890</b>	<b>1,300</b>	<b>12,100</b>
272	Indicated	29,990,000	197	1,850	5,910	55,480
	Inferred	5,500,000	201	2,010	1,100	11,100
238	Indicated	25,130,000	197	2,000	4,950	50,240
	Inferred	4,900,000	202	2,110	1,000	10,400

1. Ta price was varied and all other assumptions remain the same as base case.
2. Base case is in bold.
3. Mineral resources are amenable to underground mining methods and have been constrained using a “Stope Analyser”.
4. Discrepancies in contained oxide values are due to rounding.
5. In situ contained oxide reported.

To assess reasonable prospects for economic extraction, AMEC considered the concept of mining the Blue River Deposit using variations of room and pillar methods under a conceptual scenario that

considers mining and processing at a rate of 7,500 tonnes per day. Mining and economic parameters were adjusted based on AMEC's experience with analogous deposits and mining methods. Economic viability of the mineral resource can only be demonstrated by Pre-Feasibility and Feasibility Studies, and there is no assurance that the stated resources can be upgraded in confidence and converted to mineral reserves. Further, since underground mining methods are envisioned (room and pillar or variants), the mining recovery may vary from 65% to 85% depending on the success in which pillars can be mined on retreat and/or fill is utilized.

AMEC has concluded that the 2009 work program resulted in a marked improvement in the interpretation of the geology of the Upper Fir tantalum- and niobium-bearing carbonatite, which in turn has resulted in an increase in confidence and size of the deposit.

The resource comprises a series of sill-like carbonatite bodies with up to 91.2m in estimated cumulated true thickness. The composite body extends more than 1,450m in a north-south direction and as much as 800m in an east-west direction. Tantalum and niobium are contained in the minerals ferrocolumbite and pyrochlore.

Preliminary results from 54 holes, totalling 12,949m of HQ drill core, drilled in 2010 were provided to AMEC for review after completion of the resource estimation. Only lithological information from these holes was available. Assays for these holes are expected in the second quarter 2011. The results from 2010 drilling will be used as a basis for an updated resource estimate once received. The Company's focus is on the Blue River Preliminary Economic Assessment ("PEA") currently being completed under the direction of AMEC.

2011 Work Program: Based on project-related activities and cash on hand, the Company is fully funded to complete all studies recommended in 2011. For this year, the Company intends to further expand the knowledge of the deposit with additional closer-spaced diamond drilling. A program of advanced metallurgical testing and more detailed engineering is also planned. Details will follow based on recommendations arising from AMEC's PEA.

## **Eldor Property**

The Eldor Property is located in the Labrador Trough area of northern Quebec and was acquired in 2007. The Company acquired the original property by a purchase agreement with Virginia Mines Inc. (TSX: VGQ) and subsequently expanded the property by staking.

During exploration at the Eldor Property in 2009, the Company identified the Ashram Peninsula rare earth element ("REE") mineralized zone (the "Ashram Rare Earth Element Zone") from rock sampling at a 1 km by 0.8 km magnetic low. The zone has been defined by multiple outcrop samples returning greater than 1% REE+Y and is adjacent to a glacially dispersed boulder train that returned assays of up to 4.18% REE+Y.

The 2010 exploration program included the drilling of 16 holes totalling approximately 4,100 metres, as well as prospecting, mapping, soil sampling, a ground magnetic survey, and trenching. The drilling was designed to test the previously untested Ashram Rare Earth Element Zone and identify a carbonatite-hosted REE deposit.

The 2010 drill program at the Ashram Rare Earth Zone consisted of 12 holes totalling 3,312.67 metres. All drill holes collared in mineralization. REE mineralization occurs within an area measuring in excess of 650 m east-west, by 350 m north-south, to depths of 365 m. The mineralization remains open to the north, south, east, at depth, and is not fully constrained to the west.

A National Instrument 43-101 compliant resource estimate, based on the first 12 holes at the Ashram Rare Earth Zone, will be forthcoming from SGS Geostat Ltd. ("SGS") of Montreal, Quebec. All exploration data has been delivered to SGS and a property visit has been completed. It is anticipated that the resource estimate will be completed within the first quarter of 2011 and will be reported as soon as it is received.

2011 Work Program: Cartwright Drilling Inc. has been contracted to conduct a minimum 3,000 metre winter drill program at the Ashram Rare Earth Zone with a drill rig capable of attaining depths in excess of 600 metres. The drill program is expected to begin at the end of February and continue for as long as the weather permits. Vertical holes from the pond in the centre of the zone will target the depth extension of the mineralization and define its eastern and northern boundaries. Based on exploration to date, the highest grades and the enriched MREO+HREO zone appear to be within the northeastern margins of the deposit. The Company has also retained Roger Mitchell of Lakehead University in Ontario to conduct a preliminary mineralogical investigation of the REE mineralization at the Ashram Zone.

### **Other Properties - Carbo Property**

The Carbo Property is located approximately 80 km northeast of Prince George, British Columbia. The Carbo Property covers a series of REE and niobium bearing dike- or sill-like carbonatites and syenites. In February 2009, Canadian International Metals Inc. (TSXv: CIN) (“CIN”) was granted an option to acquire up to a 75% interest in the Carbo Claims.

CIN completed a total of nine NQ core holes (1,938.9 metres) and all holes returned significant REE mineralization within carbonatite lithologies. Drilling was concentrated within an approximately 500-metre-square area, within the northeast part of the Carbo claim block. The 2010 drilling, combined with historic exploration, confirmed the presence of significant REE mineralization within the northernmost portions of the more than five-kilometre-long Wicheeda carbonatite-syenite complex.

### **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, prepared in accordance with Canadian Generally Accepted Accounting Principals (“GAAP”):

	Fiscal year ended October 31		
	2010	2009	2008
	\$	\$	\$
Total Revenues	Nil	Nil	Nil
Loss from continuing operations	(2,372,288)	(2,756,648)	(6,301,541)
Loss from continuing operations (per share, basic and diluted)	(0.02)	(0.02)	(0.04)
Net loss	(2,372,288)	(2,756,648)	(6,301,541)
Net loss (per share, basic and diluted)	(0.02)	(0.02)	(0.04)
Net loss and comprehensive loss for the year	(2,154,144)	(2,140,649)	(4,695,655)
Net loss and comprehensive loss (per share, basic and diluted)	(0.02)	(0.02)	(0.04)
Total assets	44,235,587	45,092,078	41,209,386
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.

### **Results of Operations**

#### *Exploration and Development Activities*

Resource property expenditures for the year ended October 31, 2010 totalled \$9,492,053, an increase of 59% over the level of expenditures in the comparable year ended October 31, 2009. Most of these

expenditures (\$5,493,905) were incurred on the Blue River Project with the balance being incurred on the Eldor Project (\$3,992,981) and the Carbo Claims (\$5,167).

The increase is due to the level of activities on the properties, including drilling, engineering, environmental and metallurgical work at the Blue River Project, as well as an exploration program including geophysical surveys, geochemical surveys, and drilling being carried out at the Eldor Project.

**Blue River:** Exploration expenditures during the year ended October 31, 2010 totalled \$5,493,905. Most of the work done this year has been with the objective of better defining the Upper Fir deposit as well as to provide more detailed technical data to support engineering investigations related to preliminary economic evaluation. Metallurgical studies have been conducted to define an efficient process for the recovery of tantalum.

**Eldor Project:** Exploration expenditures during the year ended October 31, 2010 totalled \$3,992,981. The majority of the work done this year has been with the objective of testing the potential of the Ashram Rare Earth Element Zone to host carbonatite-hosted REE deposit.

#### *General and Administrative*

Net loss for the year ended October 31, 2010 were \$2,372,288, a decrease of 14% over the amount incurred during the comparable year ended October 31, 2009 of \$2,756,648. The significant reasons for the decrease in expenses included stock based compensation (2010: \$288,262; 2009: \$1,176,918) which was higher in 2009 due to the re-pricing of options and a decrease in interest income (2010: \$190,143; 2009: \$562,728) due to lower interest rates and reduced investments in 2010.

Other significant differences include:

- Increased advertising and website expenses (2010: \$368,996; 2009: \$ 322,677) reflect the result of additional marketing to international investors and new marketing initiatives, which were offset by a decrease in travel and promotion expenses (2010: \$211,657; 2009: \$306,141);
- Increased professional fees (2010: \$58,996; 2009: \$33,398) included additional audit fees related to the prior year;
- Increased consulting fees (2010: \$374,771; 2009: \$201,686) are primarily due to the increase in monitoring and participating in the developments surrounding the issue of conflict minerals expenses; and
- Increased write-off in mineral properties (2010: \$32,232; 2009: \$nil) reflect the lapse of several claims on the Eldor property.

#### *Asset Backed Commercial Paper*

As at October 31, 2010, the Company held asset-backed commercial paper (“ABCP”) issued by a number of trusts with an original cost of \$8,074,267 (2009: \$8,081,419). When the Company acquired these investments, they were rated R1 (High) by Dominion Bond Rating Services (“DBRS”). These investments matured during the year ended October 31, 2007 however, due to liquidity issues in the ABCP market, they did not settle on maturity. As a result, the Company has classified its ABCP as long-term investments. More information on ABCP can be found in Note 5 of the financial statements for the year ended October 31, 2010. During the year ended October 31, 2010, \$7,152 (2009: \$54,236) of ABCP was redeemed at no discount.

#### *Marketable securities*

As at October 31, 2010, the Company had \$481,037 in marketable securities. The Company’s marketable securities are comprised mostly of securities that it received in the sale or optioning of property interests.

## Summary of Quarterly Results

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

	October 31, 2010	July 31, 2010	April 30, 2010	January 31, 2010	October 31, 2009	July 31, 2009	April 30, 2009	January 31, 2009
Revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Income (loss) before income taxes, discontinued and extraordinary items (Total)	(515,043)	(499,340)	(754,153)	(721,570)	(1,302,861)	(199,671)	(1,179,401)	(74,715)
Basic and diluted loss before discontinued and extraordinary items (Per share)	(0.004)	(0.004)	(0.006)	(0.006)	(0.011)	(0.002)	(0.011)	(0.001)
Net income (loss) (total)	(397,225)	(499,340)	(754,153)	(721,570)	(1,302,861)	(199,671)	(1,175,626)	(74,715)
Basic and diluted net loss (per share)	(0.003)	(0.004)	(0.006)	(0.006)	(0.010)	(0.002)	(0.009)	(0.001)

The fluctuations on quarterly net loss is primarily due to stock-based compensation expenses recognized on stock options granted to director, officers, employees and consultants of the Company.

### Fourth Quarter

Net loss for the three months ending October 31, 2010 was \$397,225 compared to a net loss of \$1,302,861 for the comparative quarter ended October 31, 2009, a decrease of \$905,636. The most significant difference is stock based compensation (2010: \$120,026 recovery; 2009: \$635,253) due to the re-pricing of options in 2009 and recalculation of stock based compensation in 2010.

Other differences include:

- Reduced advertising and website (2010: \$103,641; 2009: \$180,335);
- Reduced investor relations (2010 \$32,470; 2009: \$48,174);
- Reduced travel and promotion (2010: \$57,933; 2009 \$98,811);
- Increased consulting fees (2010: \$99,020; 2009: \$56,122) due to a participating in the developments surrounding the issue of conflict minerals expenses;
- Increased write-off of mineral properties (2010: \$32,232; 2009: \$nil) due to lapsed claims; and
- A future income tax recovery (2010: \$117,818; 2009: \$nil) from Asset-backed commercial paper and Marketable Securities.

## **Capital Resources and Liquidity**

The Company has had to rely upon the sale of equity securities for the cash required for capital acquisitions, exploration and development, and administration, among other things. The capital resources of the Company include resource properties, carried at \$26,748,208. It is the Company's intention to commit further funds for continuing exploration activities.

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.

The Company will continue to require funds to continue 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.

All of the Company's properties are in the exploration stage only and all are without known bodies of commercial ore. Development of each 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 base and precious metals from the properties, such as tantalum and niobium. 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 including international, economic and political trends, expectations of inflation, currency exchange fluctuations and interest rates.

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 and Eldor properties. The Company's present cash resources are sufficient to meet all of its current contractual obligations and administrative and overhead expenses for at least the next eighteen months.

As at the year ended October 31, 2010, the Company has total assets of \$44,235,587. The primary assets of the Company are deferred resource property costs of \$26,748,208, asset backed commercial paper carried at \$4,243,319, equipment of \$522,067, marketable securities carried at \$481,037, mining tax receivable of \$4,290,267, and cash (and cash equivalents) of \$7,128,737. The Company has no long-term liabilities and has working capital surplus of \$11,451,888 as at October 31, 2010.

### 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 companies with a common director as follows:

	<u>October 31, 2010</u>	<u>October 31, 2009</u>
Administration fees	\$1,080,000	\$1,080,000
Consulting fees	\$104,402	\$125,322
Office expenses	\$878	\$51,767
Advertising, promotion, and travel	\$8,684	-
Field equipment	-	\$60,000
Share issuance costs	-	\$80,000
Deferred exploration and development costs	<u>\$3,625,623</u>	<u>\$2,012,446</u>
	<u>\$4,819,587</u>	<u>\$3,409,535</u>

These charges were measured at the exchange amount, which is the amount agreed upon by the transacting parties. Administrative fees and rent include management fees, rental expenses and accounting services received during the year.

At October 31, 2010, \$535,426 (2009: \$178,056) was due to a company with a common director of the Company for fees and expenses related to geological consulting, \$8,390 (2009: \$nil) was due to a director for consulting fees, \$22,500 (2009: \$nil) was due to a company with a common director, and \$34,651 (2009: \$11,874) was due from companies with a common director. The payables and receivables are non-interest bearing and due on demand.

At October 31, 2010, \$187,150 included in marketable securities (2009: \$71,276) is with a public company having directors in common.

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

As a mineral exploration and development company, Newmac'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, labor 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 affect 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.

### **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 October 31, 2010</u></b>	<b><u>Year ended October 31, 2009</u></b>
Capitalized or Expensed Exploration and Development Costs	\$9,492,053	\$5,979,139
General and Administration Expenses	\$2,641,035	\$3,337,446
Gain on sale of marketable securities	\$nil	\$17,196

#### Disclosure of Outstanding Share Capital

The following is a breakdown of the share capital of the Company, on an annual basis as well as at the most recently ended quarter and the date of this report:

	<u>February 21, 2011</u>	<u>October 31, 2010</u>	<u>October 31, 2009</u>	<u>October 31, 2008</u>
Common shares	134,139,989	130,699,640	130,517,140	111,534,015
Stock Options	9,575,983	8,420,000	7,540,000	6,585,000
Warrants	34,216,983	36,261,442	36,298,942	28,635,442
Brokers warrants	<u>257,138</u>	<u>621,720</u>	<u>621,720</u>	<u>2,754,202</u>
Fully Diluted Shares	178,190,093	176,002,802	174,977,802	149,508,659

For additional details of outstanding share capital, refer to the financial statements for the year ended October 31, 2010.

### **Changes in Accounting Policies**

There have been no changes in the accounting policies except for the added disclosures regarding the fair values on the asset-back commercial paper.

### **International Financial Reporting Standards**

On February 13, 2008, Canada's Accounting Standard Board confirmed January 1, 2011 as the effective date for complete convergence of Canadian GAAP to International Financial Reporting Standards ("IFRS"). The official changeover date will apply for interim and financial statements relating to fiscal years beginning on or after January 1, 2011. The Company has determined that the key elements of this IFRS changeover on the Company will be in the areas of accounting for resource properties' acquisition and exploration costs, impairment of long-lived assets, accounting for share capital including stock options and warrant valuations and general IFRS disclosure requirements.

#### Impact of Adopting IFRS on the Company's Financial Statements

The adoption of IFRS will result in some changes to the Company's accounting policies that are applied in the recognition, measurement and disclosure of balances and transactions in its financial statements. The opening balance sheet figures will also need to be audited by the Company's auditors. To comply with these requirements, the Company will gather additional information and the current reporting processes will be modified to provide the appropriate level of detail in order to prepare the Company's financial statements under IFRS.

#### Impact on the Internal Controls over Financial Reporting

The Company will make the appropriate changes to maintain the integrity of the Company's internal controls over financial reporting for the initial transition to IFRS, including the related note disclosures, as well as on-going financial reporting.

#### Impact on the Disclosure Controls and Procedures

IFRS requires additional disclosures in a number of areas including estimates, related party transactions, income taxes and impairment. In the year of adoption of IFRS, additional disclosures are required to show the transition from GAAP to IFRS for the opening balance sheet figures as of November 1, 2010. Reconciliations of equity and earnings (loss) are required with disclosure of the key differences.

#### Financial Reporting Expertise

The Company will ensure that the appropriate management oversight is in place and appropriate management review and approval is obtained for all additional financial and other material disclosures. The Company's accounting personnel will be trained in IFRS, and the Audit Committee will assess the Board of Director's IFRS knowledge and recommend any additional training that may be required.

#### Impact on the Business

The Company has reviewed its significant business activities to date and believes that none of these will

be impacted by the transition to IFRS. Business process will be monitored during the following months to detect and address any previously not identified IFRS conversion issues.

### Conversion Plan

The Company's conversion plan to transition from Canadian GAAP to IFRS consists of three phases:

- Phase 1 (Scoping and diagnostic) – A preliminary diagnostic review which included the determination, at a high level, of the financial reporting differences and options under IFRS and the key areas that may be impacted was completed in 2010.
- Phase 2 (Impact analysis, quantification and evaluation) – In this phase, the Company will perform a detailed assessment and technical analysis of each area identified from Phase 1 that will result in the conclusion of IFRS transitional adjustments, decisions on accounting policy choices and the drafting of accounting policies. The Company has started this second phase with completion expected in the second quarter of 2011.
- Phase 3 (Implementation phase) – This phase includes the collection of financial information necessary to compile IFRS compliant financial statements and the preparation of the opening balance sheet as at November 1, 2011 and will be carried out in the first half of 2012.

Based on the review in Phase 1 and the work to date under Phase 2, a number of key accounting areas were identified where IFRS differs from current GAAP, which are expected to have an impact on the Company's financial statements. These key areas are explained below. IFRS will require more extensive disclosure and analysis of balances and transaction in the notes to the financial statements. The Company's review has not identified significant impact on its accounting processes, financial reporting systems and controls.

### IFRS 1, First-time Adoption of IFRS

IFRS 1 provides entities adopting IFRS for the first time with a number of optional exemptions and mandatory exceptions, in certain areas, to the general requirement for full retrospective applications of IFRS. The purpose of the options is to provide relief to companies and simplify the conversion process by not requiring them to recreate information that may not exist or may not have been collected at the inception of the transaction. We have analyzed the various exemptions available and are working towards implementing those most appropriate in our circumstances.

### Property, Plant and Equipment

IFRS currently allows property, plant and equipment to be either recorded using the cost or revaluation models. Depreciation must be based on the useful lives of each significant component within property, plant and equipment. We have the option to record items of property, plant and equipment at their fair value on transition to IFRS. This value becomes the deemed cost of the asset. The Company expects to continue to record property, plant and equipment at their historical costs due to the complexity and resources required to determine fair values on an annual basis.

### Mineral Properties, Exploration and Development Costs

IFRS currently allows exploration and evaluation expenses to be either capitalized or expensed. The Company expects to continue to capitalize its exploration and evaluation expenses.

### Impairment of Mineral Properties

Canadian GAAP provides for a 2 step test with no impairment being required if the undiscounted future expected cash flows relating to an asset are higher than the carrying value of that asset. Under IFRS, the undiscounted cash flows are not considered and an impairment is recorded when the recoverable amount

(defined as the higher of 'value in use' and 'fair value less costs to sell') is below the asset's carrying value.

The Company will be required to adopt the discounted future cash flow approach with respect to impairment analysis of its mineral properties. Impairment under this approach may generate a greater likelihood of write-down in future.

Write down to net realizable value can be reversed under IFRS if the conditions of impairment ceased to exist. This difference in approach between Canadian GAAP and IFRS could result in potentially significant volatility in earnings.

### Stock Based Compensation

Under IFRS, each instalment is to be treated as a separate share option grant with graded-vesting features, forfeitures are to be estimated at time of grant and revised if actual forfeitures are likely to differ from previous estimates and options granted to parties other than employees are measured on the date the goods or services received. The concept of employees and other providing similar services under IFRS is a broader concept under IFRS. The Company is currently recording its stock based compensation expenses on a straight line basis over the vesting period and forfeitures as they occur. The transition to IFRS would likely result in more variability in the compensation expenses.

The Company continues to monitor IFRS standards development as issued by the International Accounting Standard Board and the regulators which may affect the timing, nature and disclosure of the Company's adoption of IFRS.

### **Financial Instruments and Other Instruments**

The Company has classified its financial instruments as follows:

- Cash and cash equivalents and short term investment are classified as held-for-trading and are measured at fair value.
- Marketable securities and asset-backed commercial paper ("ABCP") are classified as available for sale. They are recorded at fair value at initial recognition and measured at fair value at each period and subsequent revaluation resulting in gains or losses is recorded in accumulated other comprehensive income.
- Amounts receivable and amounts due from related parties are classified as loans and receivables. They are recorded at cost, which on initial recognition represents their fair value. Subsequent valuations are recorded at amortized cost using the effective interest method.
- Accounts payable and accrued liabilities and amounts due from related parties are classified as other liabilities. They are initially measured at fair value. Subsequent valuations are recorded at amortized cost using the effective interest method.

Handbook Section 3862, Financial Instruments – Disclosures establishes revised standards for the disclosure of financial instruments. This standard establishes a three-tier hierarchy as a framework for disclosing fair value of financial instruments based on inputs used to value the Company's investments. The hierarchy of inputs and description of inputs is described as follows:

Level 1 – fair values are based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – fair values are based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (as prices) or indirectly (derived from prices); or

Level 3 – fair values are based on inputs for the asset or liability that are not based on observable market data, which are unobservable inputs.

Changes in valuation methods may result in transfers into or out of an investment's assigned level. During the year ended October 31, 2010, there were no significant transfers between level 1 and 2.

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

- a) Subsequent to the year ending October 31, 2010, 364,582 brokers warrants were exercised for proceeds of \$145,008, 849,017 options were exercised for proceeds of \$186,394, and 2,226,750 warrants were exercised for proceeds of \$1,203,339.
- b) On November 17, 2010, 2,005,000 stock options were granted at a price of \$0.55, expiring on November 17, 2015.
- c) On November 24, 2010, under stock symbol CMRZF, the Company commenced trading on the OTCQX.

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

As a mineral exploration and development company, Commerce Resource Corp.'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, labor 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 affect 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.

### **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).