



COMMERCE RESOURCES CORP.

Management Discussion & Analysis for the Six Months April 30, 2012

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, 2012** which are prepared in Canadian dollars and in accordance with International Accounting Standard 34 (“IAS 34”) – Interim Financial Reporting. The Corporation’s financial statements are prepared in accordance with International Financial Reporting Standards (“IFRS”), which replaced Canadian Generally Accepted Accounting Principles (“GAAP”) on January 1, 2010. Readers are referred to the Changes in Accounting Policy section of this MD&A. The condensed interim financial statements and notes thereto and the following discussion and analysis for the six months ended April 30, 2012 have not been reviewed by the Company’s Auditor.

The effective date of this report is June 28, 2012.

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 the rare metals tantalum and niobium and rare earth elements (“REEs”). Commerce’s principal assets are its Blue River Tantalum-Niobium Project in British Columbia and its Eldor Rare Earth Project in Quebec. 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.

A positive Preliminary Economic Assessment (“PEA”) on the rare metal development potential of the Blue River Tantalum-Niobium Project was completed in November 2011. Current work on this project is focused on the Upper Fir deposit where AMEC Americas Limited is working on an updated mineral resource estimate that will include the results of drilling completed to the end of 2010 and assays received as of September 29, 2011.

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; and has an excellent capacity to store and release an electrical charge. Tantalum metal and tantalum pentoxide (Ta_2O_5), 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.

At the Eldor Project, the Company's exploration activities have led to the discovery of a significant new REE deposit; the Ashram Deposit. A PEA for the Ashram was announced in May 2012. The PEA, prepared by SGS Canada Inc., indicates that the deposit can be developed economically as an open-pit mine and recommends future work applicable to the pre-feasibility and feasibility phases of economic evaluation.

REEs are a collection of seventeen chemical elements in the periodic table, namely scandium, yttrium, and the fifteen lanthanides. REEs 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).

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 GAAP:

	Fiscal year ended October 31		
	2011	2010	2009
	\$	\$	\$
Total Revenues	Nil	Nil	Nil
Loss from continuing operations	(4,224,027)	(2,372,288)	(2,756,648)
Loss from continuing operations (per share, basic and diluted)	(0.03)	(0.02)	(0.02)
Net loss	(4,224,027)	(2,372,288)	(2,756,648)
Net loss (per share, basic and diluted)	(0.03)	(0.02)	(0.02)
Net loss and comprehensive loss for the year	(3,963,902)	(2,154,144)	(2,140,649)
Net loss and comprehensive loss (per share, basic and diluted)	(0.03)	(0.02)	(0.02)
Total assets	54,478,390	44,235,587	45,092,078
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 six months ended April 30, 2012, totalled \$4,565,793, compared to \$4,557,570 in the six months ended April 30, 2011. Most of these expenditures (2012: \$2,912,018, 2011: \$3,283,115) were incurred on the Eldor Project with the balance being incurred on the Blue River Project (2012: \$1,821,202, 2011: \$1,260,068) and the Carbo Claims (2012: \$nil, 2011: \$14,387).

The slight increase is due to the level of activities on the properties, including engineering, environmental and geological work at the Blue River Project, as well as exploration and engineering work at the Eldor Project.

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.

Exploration expenditures during the six months ended April 30, 2012, totalled \$1,821,202 (October 31, 2011 - \$5,667,314). Most of the work done to date this year has been with the objective of better defining the Upper Fir deposit as well as to provide the necessary technical data to support engineering investigations.

A positive NI 43-101 compliant Preliminary Economic Assessment (“PEA”), prepared by independent consultants, AMEC Americas Limited, indicates that the deposit can be developed economically as an underground mine and recommends future studies to support a pre-feasibility level assessment of the project. This assessment incorporated drilling and structural data developed from the project and includes detailed solids modeling and preliminary metallurgical and process flow sheet designs.

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) Ta₂O₅ and 1,700 ppm (gpt) Nb₂O₅. Base case Inferred mineral resources are 6.40 million tonnes containing 199 ppm (gpt) Ta₂O₅ and 1890 ppm (gpt) Nb₂O₅. 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 50 metres with dips typically between -60 to sub-vertical.

2011-2012 Work Program:

During 2011, the Company completed approximately 8,715 metres in a 34 drill-hole definition drilling program which was targeted to improve understanding of geological and structural relationships within the Upper Fir deposit. Assay results from the program are pending.

The Company is currently compiling the 2010 drilling results (54 holes; 12,949 metres) for inclusion in an updated three dimensional block model and resource estimate incorporating all drilling to the end of 2010. The results are expected shortly.

Environmental baseline investigations, including water quality, hydrology and vegetation studies, which commenced in 2006 are continuing and will contribute to the ongoing environmental assessment.

Eldor Rare Earth Project

The Eldor Property is situated in northern Quebec approximately 130 km south of the town of Kuujjuaq. The property is 100%-owned by the Company and is composed of 404 claims comprising approximately 19,006 hectares.

Exploration expenditures during the six months ended April 30, 2012, totalled \$2,744,591 (October 31, 2011 - \$9,829,809).

At the Eldor Property, Commerce's 2010 exploration program led to the discovery of a significant new REE deposit known as the Ashram. In May 2012, the Company reported a positive National Instrument compliant PEA for the Ashram Deposit. The PEA, prepared by independent consultants SGS Canada Inc. - Geostat (SGS Geostat) of Montreal (Blainville), indicates that the deposit can be developed economically as an open-pit mine and recommends future work applicable to the pre-feasibility and feasibility phases of economic evaluation.

Key findings of the PEA:

- 4,000 t/d, open-pit operation with 0.19:1 (waste:ore) strip ratio over 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
- Greater than 175 years worth of mineable mineralized material (open pit + underground) using a Cut-off Grade (CoG) of 1.25% TREO
- 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), which is an approximate 100% increase in tonnage over the Company's initial inferred mineral resource estimate. This resource includes all drilling completed at the Ashram Deposit to date (15,691.74 metres in 45 holes). The mineral resource estimate is as follows:

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. Using the Ashram basket price of \$35.02 per kg, the marginal (mill) CoG was calculated at 0.51% TREO. Although all material above 0.51% TREO is considered economic, a mining CoG of 1.25% TREO was selected in order to maximize the mill feed grade.
- LREO (Light Rare Earth Oxides) = $\text{La}_2\text{O}_3 + \text{Ce}_2\text{O}_3 + \text{Pr}_2\text{O}_3 + \text{Nd}_2\text{O}_3$
- MREO (Middle Rare Earth Oxides) = $\text{Sm}_2\text{O}_3 + \text{Eu}_2\text{O}_3 + \text{Gd}_2\text{O}_3$
- HREO (Heavy Rare Earth Oxides) = $\text{Tb}_2\text{O}_3 + \text{Dy}_2\text{O}_3 + \text{Ho}_2\text{O}_3 + \text{Er}_2\text{O}_3 + \text{Tm}_2\text{O}_3 + \text{Yb}_2\text{O}_3 + \text{Lu}_2\text{O}_3 + \text{Y}_2\text{O}_3$
- MHREO (Middle and Heavy Rare Earth Oxides) = MREO + HREO
- MHREO / TREO, ratio expressed as a percent

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.

2012 Work Program:

Commerce is currently planning its 2012 fieldwork program for the Eldor. A program of mineralogical and metallurgical testing is also planned based on the recommendations from the PEA.

General and Administrative

Net loss for the six months ended April 30, 2012, was \$576,621, compared to a net loss during the six months ended April 30, 2011 of \$3,518,402, for a difference of \$2,941,781. The most significant reasons for the increase in income is due to stock based compensation (2012: \$nil; 2011: \$2,327,091) which was higher in 2011 due to options granted in the prior year and an increase in other income (2012: \$760,000; 2011: \$nil) for shares received for the Carbo Property in the current year.

Other significant differences include:

- Decreased advertising and website expenses (2012: \$169,421; 2011: \$195,331) and investor relations expenses (2012: \$41,598; 2011: \$69,432) were partially offset by an increase in travel expenses (2012: \$120,064, 2011: \$98,823) due to fewer marketing initiatives and more tradeshow travel in the current year;
- Increased bank charges and interest (2012: \$20,803, 2011: \$1,307) due to interest charged on adjustments to a prior year tax filing;

- Decreased filing and transfer agent fees (2012: \$25,740; 2011: \$86,003) due to costs related to the private placement in the previous year;
- Decreased consulting fees (2012: \$158,399; 2011: \$192,969) due to increased in-house business expertise in the current year;
- Increased professional fees (2012: \$120,064, 2011: \$9,347) due to additional legal and professional services incurred in the current year;
- Decreased interest income (2012: \$25,035, 2011: \$48,060) due to fewer investments held;
- Increased loss on sale of asset backed commercial paper (2012: \$89,925; 2011: \$nil) as the Company sold some of the investment in the current year for an amount lower than carrying value; and
- Decreased loss on sale of marketable securities (2012: \$nil; 2011: \$23,502) as the Company sold some of the investment in the prior year for an amount lower than carrying value.

Asset Backed Commercial Paper

As at April 30, 2012, the Company held asset-backed commercial paper (“ABCP”) issued by a number of trusts with an original cost of \$3,153,169 (October 31, 2011: \$4,774,791). 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 8 of the condensed interim financial statements for the six months ended April 30, 2012.

During the six months ended April 30, 2012, the Company received proceeds from ABCP sales of \$3,356,541 (October 31, 2011: \$218,824) and recognized a loss on sale of ABCP of \$nil (October 31, 2011: \$53,904 gain). As at April 30, 2012, the fair value of the ABCP as determined above was \$1,515,748 (October 31, 2011: \$4,872,289) and the Company recorded an unrealized gain of \$nil (October 31, 2011: \$794,524) from this instrument. During the six months ended April 30, 2012, \$nil (October 31, 2011 - \$634) of the Class 9 notes were written off, of which was deemed uncollectible by an independent financial institute. Subsequent to April 30, 2012, the Company received total proceeds of \$1,382,861 from the sale of 1,951,213 units of MAV II Class A-2 Notes. Accrued interest paid associated with the redemption is \$2,786.

Marketable Securities

As at April 30, 2012, the Company had \$703,521 (October 31, 2011 - \$457,743) in marketable securities, valued at fair market value. The Company’s marketable securities are comprised mostly of securities that it received in the sale or optioning of property interests. More information on marketable securities can be found in Note 5 of the condensed interim financial statements for the six months ended April 30, 2012.

Summary of Quarterly Results

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

	April 30, 2012	January 31, 2012	October 31, 2011	July 31, 2011	April 30, 2011	January 31, 2011	October 31, 2010	July 31, 2010
Revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Income (loss) before income taxes, discontinued and extraordinary items (Total)	753,914	177,293	(199,248)	(535,916)	(2,157,132)	(1,361,270)	(515,043)	(499,340)
Basic and diluted loss before discontinued and extraordinary items (Per share)	0.005	0.001	(0.001)	(0.004)	(0.020)	(0.010)	(0.004)	(0.004)
Net income (loss) (total)	753,914	177,293	(169,709)	(535,916)	(2,157,132)	(1,361,270)	(397,225)	(499,340)
Basic and diluted net loss (per share)	0.005	0.001	(0.001)	(0.004)	(0.020)	(0.010)	(0.003)	(0.004)

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

Second Quarter

Net income for the three months ended April 30, 2012, was \$753,914, compared to a net loss during the three months ended April 30, 2011 of \$2,157,133, for a difference of \$1,403,219. The most significant reason for the increase in income is due to stock based compensation (2012: \$nil; 2011: \$1,586,796) which was higher in 2011 due to options granted in the prior year.

Other significant differences include:

- Increased advertising and website expenses (2012: \$95,084; 2011: \$82,117) and travel expenses (2012: \$58,916, 2011: \$31,254) due to increased tradeshow travel in the current year;
- Increased bank charges and interest (2012: \$19,483, 2011: \$870) due to interest charged on adjustments to a prior year tax filing;
- Decreased filing and transfer agent fees (2012: \$21,685; 2011: \$67,753) due to costs related to the private placement in the previous year;
- Increased professional fees (2012: \$169,074, 2011: \$2,072) due to additional legal and professional services incurred in the current year; and
- Decreased interest income (2012: \$8,128, 2011: \$23,329) due to fewer investments held.

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 \$41,942,999. 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. 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 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.

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 April 30, 2012, the Company has total assets of \$49,912,567. The primary assets of the Company are deferred resource property costs of \$41,942,999, asset backed commercial paper carried at \$1,515,748, equipment of \$612,201, marketable securities carried at \$703,521, mining tax receivable of \$5,069,558, non-current prepaid expenses of \$149,766, current prepaid expenses of \$107,113, GST/HST recoverable of \$216,950, and cash (and cash equivalents) of \$920,880. The Company has no long-term liabilities and has working capital of \$5,910,100 as at April 30, 2012.

Commitments

On May 1, 2008, the Company entered into a Management & Administration 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 for \$90,000 per month. The agreement was extended on May 1, 2012, for a term of one year.

Off Balance Sheet Arrangements

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

Transactions with Related Parties

The Company incurred the following fees and expenses in the normal course of operations and are measured at the exchange amount.

<u>Related party transactions</u>	<u>Six months ended April 30,</u>	
	<u>2012</u>	<u>2011</u>
Administration fees and rent	540,000	540,000
Consulting fees	151,967	76,554
Deferred exploration and development costs	1,390,739	1,650,521
Office, promotion, and travel expenses	39,819	5,960
Total	2,122,525	2,273,035

<u>Amounts due to (from) related parties</u>	<u>April 30, 2012</u>	<u>October 31, 2011</u>	<u>November 1, 2010</u>
Dahrouge Geological Consulting	391,742	926,898	535,426
nKwazi Resource Management	4,480	34,846	-
Dr. Axel Hoppe	49,660	30,366	8,390
Pasinex Resources (formerly Triple Dragon)	-	(17,933)	(34,651)
Zimtu Capital Corp.	(15,316)	(53,031)	22,500
Net amount payable	430,566	890,780	531,665

Zimtu Capital Corp. is related by way of common directorship with a director of the Company and provides monthly administrative and managerial services (see Note 13). At April 30, 2012, \$128,436 (October 31, 2011 - \$107,641; November 1, 2010 - \$187,149) included in marketable securities is for shares held in Zimtu.

Dahrouge Geological Consulting is related by way of common directorship.

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.

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:

	<u>Year Ended</u> <u>October 31, 2011</u>	<u>Year ended</u> <u>October 31, 2010</u>
Capitalized or Expensed Exploration and Development Costs	\$15,502,193	\$9,492,053
General and Administration Expenses	\$4,675,701	\$2,641,035

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>June 28, 2012</u>	<u>April 30, 2012</u>	<u>October 31, 2011</u>	<u>October 31, 2010</u>
Common shares	147,956,422	147,956,422	147,781,422	130,699,640
Stock Options	9,763,483	9,963,483	11,038,483	8,420,000
Warrants	2,004,709	2,004,709	2,004,709	36,261,442
Brokers warrants	-	-	-	621,720
Fully Diluted Shares	159,724,614	159,924,614	160,824,614	176,002,802

For additional details of outstanding share capital, refer to the condensed interim financial statements for

the six months ended April 30, 2012.

Adoption of International Financial Reporting Standards (IFRS)

The Company adopted IFRS on November 1, 2011 with a transition date of November 1, 2010. See Notes 3 and 4 of the interim condensed financial statements for the six months ended April 30, 2012, for a detailed listing of the Company's new accounting policies.

In preparing the opening IFRS statement of financial position, comparative information, and the financial statements for the year ended October 31, 2011 in accordance with IFRS 1 *First-time Adoption of International Financial Reporting Standards (IFRS 1)*, the Company applied the following optional exemptions from full retrospective application of IFRS:

a. Share-based payment transactions

The Company elected to use the IFRS 1 exemption whereby the liabilities for share-based payments that had vested or settled prior to January 1, 2010 were not required to be retrospectively restated.

IFRS requires the presentation of a reconciliation of the statements of financial position, comprehensive loss and cash flows for the prior period. The adoption of IFRS has resulted in no reclassifications in the Company's reported financial position at November 1, 2010, April 30, 2011, and October 31, 2011.

Future Accounting Standards

The following amendments are not expected to have any impact on the financial results of the Company:

- Amendments to IFRS 7, Financial Instruments: Disclosures
- Amendments to IAS 1, Presentation of Financial Statements
- Amendments to IAS 24, Related Party Disclosures
- Amendments to IAS 34, Interim Financial Reporting
- Amendments to IAS 12, Income Taxes
- IFRS 9, Financial Instruments
- IFRS 10, Consolidated Financial Statements
- IFRS 11, Joint Arrangements
- IFRS 12, Disclosure of Interests in Other Entities
- IFRS 13, Fair Value Measurement
- Amendments to IAS 27, Separate Financial Statements
- Amendments to IAS 28, Investments in Associates and Joint Ventures

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 and cash equivalents, 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 balance sheet. The Company monitors its credit risk management practices continuously to evaluate their effectiveness.

At April 30, 2012, cash and cash equivalents of \$920,880 (October 31, 2011 - \$3,693,630; November 1, 2010 - \$7,128,737) consisted of cash balances of \$665,572 (October 31, 2011 - \$812,296; November 1, 2010 - \$1,499,624) on deposit with Canadian chartered banks and \$255,308 (October 31, 2011 - \$2,881,334; November 1, 2010 - \$5,629,113) in money market funds.

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.

The Company currently has adequate liquidity to fund its financial liabilities which are comprised of accounts payable and accrued liabilities and due to related parties.

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 considered to be 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 is exposed to interest rate risk on its cash and cash equivalents and investments in asset-backed commercial paper. The sensitivity in interest rates of a decrease by 10% would result in an approximate decrease of \$10,000 (October 31, 2011: \$10,000) in net annual earnings. The sensitivity analysis on ABCP providing the effect on other comprehensive income if interest rates were to increase by 1% for the six months ended April 30, 2012 is \$149,000 (October 31, 2011: \$222,000).

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, 2012, October 31, 2011, and November 1, 2010:

	As at April 30, 2012		
	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 920,880	\$ -	\$ -
Short term investments	\$ 34,500	\$ -	\$ -
Marketable securities	\$ 703,521	\$ -	\$ -
Asset-backed commercial paper	\$ -	\$ -	\$ 1,515,748
	\$ 1,658,901	\$ -	\$ 1,515,748

	As at October 31, 2011		
	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 3,693,630	\$ -	\$ -
Short term investments	\$ 34,500	\$ -	\$ -
Marketable securities	\$ 457,743	\$ -	\$ -
Asset-backed commercial paper	\$ -	\$ -	\$ 4,872,289
	\$ 4,185,873	\$ -	\$ 4,872,289

	As at November 1, 2010		
	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 7,128,737	\$ -	\$ -
Short term investments	\$ 34,500	\$ -	\$ -
Marketable securities	\$ 481,037	\$ -	\$ -
Asset-backed commercial paper	\$ -	\$ -	\$ 4,243,319
	\$ 7,644,274	\$ -	\$ 4,243,319

Capital Management

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.

The Company's investment policy is to hold excess cash in interest-bearing bank accounts.

Proposed Transactions and Subsequent Events

- a) On June 6, 2012, 200,000 stock options priced at \$1.12 expired unexercised, and
- b) On June 8, 2012, the Company received total proceeds of \$1,382,861 from the sale of 1,951,213 units of MAV II Class A-2 Notes. Accrued interest paid associated with the redemption is \$2,786.

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 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.

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 or on SEDAR at www.sedar.com.