



Management Discussion & Analysis for the Six Months Ended April 30, 2016

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, 2016**, which are prepared using accounting policies consistent with International Financial Reporting Standards (“IFRS”), and in accordance with International Accounting Standard 34 (“IAS 34”).

The effective date of this report is June 27, 2016.

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

Nature of Business and Overall Performance

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

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

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

Selected Annual Information

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

| | Fiscal year ended October 31 | | |
|--|------------------------------|-------------|-------------|
| | 2015 | 2014 | 2013 |
| | \$ | \$ | \$ |
| Total Revenues | Nil | Nil | Nil |
| Loss from continuing operations | (2,487,355) | (1,455,751) | (1,889,905) |
| Loss from continuing operations (per share, basic and diluted) | (0.01) | (0.01) | (0.01) |
| Net loss | (2,487,355) | (1,455,751) | (1,889,905) |
| Net loss (per share, basic and diluted) | (0.01) | (0.01) | (0.01) |
| Net comprehensive loss for the year | (2,161,922) | (1,404,034) | (981,125) |
| Total assets | 59,746,192 | 58,113,640 | 52,346,628 |
| Total long term financial liabilities | Nil | Nil | Nil |
| Cash dividend declared per share | Nil | Nil | Nil |

The Company has recorded losses in each of its three most recently completed fiscal years, and expects to continue to record losses until such time as an economic resource is identified, developed, and brought into profitable commercial operation on one or more of the Company's properties or otherwise disposed of at a profit. During the year ended October 31, 2013, the Company's operating expenses were consistent with prior years, and the significant changes for the year included increased share-based payments expense for options granted, a significant gain on the sale of asset backed commercial paper, other income from a settlement for previously recorded losses on asset backed commercial paper, and a significant loss on the disposition of marketable securities. During the year ended October 31, 2014, the Company's operating expenses were again consistent with the prior year, and no significant variances in expenses were recorded. During the year ended October 31, 2015, the Company's operating expenses increased, as the Company had raised funds for exploration and further promotion of the Company's projects. Also during the year, the Company recorded a permanent write down of its marketable securities and impaired a number of claims on the Eldor Property which significantly increased its net loss from the prior year. The increase in the Company's assets is due to the continued exploration at the Eldor Property.

Results of Operations

Exploration and Development Activities

Resource property expenditures for the six months ended April 30, 2016, totalled \$349,245, compared to \$5,051,259 during the six months ended April 30, 2015. Most of these expenditures (2016: \$299,182, 2015: \$4,983,989) were incurred on the Eldor Property with the balance being incurred on the Blue River Project (2016: \$50,063, 2015: \$67,270).

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

Eldor Property

The Eldor Property is situated in northern Quebec approximately 130 km south of the town of Kuujuaq. The property is 100%-owned by the Company and is composed of 404 claims comprising approximately 19,006 hectares, including the Ashram Rare Earth Deposit ("Ashram Deposit").

Exploration expenditures during the six months ended April 30, 2016, totalled \$299,182 (April 30, 2015: \$1,682,979, October 31, 2015: \$8,882,742).

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

Key findings of the PEA (in Canadian dollars):

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

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

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

- The base case TREO cut-off grade (CoG) for the reporting of the 2012 mineral resource estimate was retained from the 2011 base case CoG of 1.25% TREO. An Ashram basket price assumption of \$35.02 per kg was used.
- LREO (Light Rare Earth Oxides) = La₂O₃ + Ce₂O₃ + Pr₂O₃ + Nd₂O₃
- MREO (Middle Rare Earth Oxides) = Sm₂O₃ + Eu₂O₃ + Gd₂O₃
- HREO (Heavy Rare Earth Oxides) = Tb₂O₃ + Dy₂O₃ + Ho₂O₃ + Er₂O₃ + Tm₂O₃ + Yb₂O₃ + Lu₂O₃ + Y₂O₃
- MHREO (Middle and Heavy Rare Earth Oxides) = MREO + HREO
- MHREO / TREO, ratio expressed as a percent

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

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

2014 Work Program:

In early 2014, the Company reported the results from the 2013 drill program at the Ashram Rare Earth Deposit. The intent of the drilling was to upgrade the inferred mineral resource located where the starter pit is anticipated to be (as discussed in the 2012 Preliminary Economic Assessment (PEA)) to the indicated category in support of the ongoing Pre-feasibility Study (PFS). The results revealed the expansion of the deposit to the northwest and the encountering of mineralized REE material at surface, and within the pit, where waste rock had been expected and modelled in the PEA. Additionally, high grade zones were encountered and all holes were collared in mineralized material ranging from 0.94% to

2.48% TREO.

- The Company subsequently initiated a winter drill program which discovered a potential extension to the MHREO Zone and continued high grade intercepts at grades higher than the resource grade previously announced (see news release dated March 6, 2012), and central to the pit shell identified in the Preliminary Economic Assessment (see news release dated May 24, 2012).

Metallurgical studies continued to make significant advancements with improvements in mineral concentrate grades and recoveries. The primary objectives of the programs were to commence the demonstration of the entire flowsheet (mini-pilot) / bench testing) through to production of several kilograms of marketable mixed rare earth carbonate concentrate as well as to produce a sample of marketable mixed RE chloride concentrate to further establish flowsheet product versatility.

2015 Work Program:

The Company completed a 4,146 metre drill program to target infill holes in order to increase the resource confidence from the current inferred category to the indicated and/or measured categories (Phase I) as required for the ongoing Pre-feasibility Study. A total of 31 NQ and HQ holes were completed with a focus on Centre Pond and along the periphery of the deposit. The drill program revealed intersections of the Middle and Heavy Rare Earth Oxide (MHREO) Zone along the eastern margin of the Ashram Deposit, as well as significant intersections of high-grade REE mineralization highlighted by EC15-129 with 199.11 m of 1.98% TREO, including 45.42 m of 2.44% TREO.

In late June, the Phase II field program began and targeted up to 3,000 m of NQ and HQ drilling focused on the remaining resource infill, mine-site infrastructure assessment, and hydrogeological testwork as required as part of the ongoing Pre-feasibility Study. As of September 14, 2015, the planned mine-site infrastructure assessment had been completed for a total of 732 m over 17 drill holes.

The Company also advanced its community dialogue and information exchange program with a round-table discussion session in Kuujuaq in early August that was attended by several key Inuit organizations. During this period, property site visits were also completed with several representatives of the Inuit and Naskapi.

The program of metallurgical studies have continued in 2015 as the Company finalized the completion of the flotation pilot, the first phase in a series of flowsheet pilot plant tests on material from the Ashram Deposit. The flotation pilot is part of a larger program to confirm the scalability of the entire flowsheet and produce several kilograms of both mixed rare earth carbonate concentrate (REC), and mixed RE chloride concentrate (RECl). The flotation pilot plant was comprised of three main circuits: grinding, reagent conditioning, and flotation and it produced ~1.4 tonnes of concentrate feed for full demonstration of the hydrometallurgical flowsheet through to the production of several kilograms of marketable mixed rare earth concentrate.

On July 20, 2015, the Company announced that the 2nd Phase of the pilot plant operations (HCl leach) had begun. Both continuous and batch leach pilots will be run. The objective of the continuous circuit is to demonstrate the leach process on a continuous and scaled up basis, as well as to evaluate performance and material handling in a manner similar to a commercial operation. The objective of the batch leach pilot is to demonstrate additional scale up as well as produce larger quantities of leach residue at the defined parameters.

Other Eldor Updates:

On April 7, 2016, the Company entered into a Memorandum of Understanding (“MOU” with NorFalco Sales (“NorFalco), where the Company agreed that NorFalco will be the sole provider of the sulphuric acid required for the Ashram Project, at highly competitive market rates and terms. The agreement is

binding and is subject to an initial 5 year term and may be renegotiated thereafter.

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

On June 16, 2016, the Company announced that it had been awarded a grant totalling \$300,000 from Fonds de recherche du Quebec – Nature et technologie ("FRQNT") and the Ministère de l'Énergie et des Ressources naturelles ("MERN"). These funds will be directed to the optimization of tailings management for the Ashram Project in Quebec.

Blue River Tantalum/Niobium Project

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

Exploration expenditures during the six months ended April 30, 2016, totalled \$50,063 (April 30, 2015: \$67,270, October 31, 2015: \$123,802). Most of the work this period has been with the objective of maintaining the property, as well as continuing to document and report previous work.

2014 Work Program:

During 2014, the Company carried out limited geological, engineering, and environmental programs to maintain the exploration property and further support the long term advancement of the Blue River Project.

Project Update Report

In connection with filing its Annual Information Form for its fiscal year ended October 31, 2014, the Company filed an updated technical report with respect to the Blue River Project, as further amended and filed on the date hereof, entitled: "NI 43-101 Blue River Tantalum-Niobium Project, British Columbia, Canada - Project Update Report" (the "Blue River Report"). The Blue River Report was prepared by AFW and Nimbus Management Ltd. with a March 18, 2015 effective date. The previous technical report, with an effective date of June 21, 2013, included results of a PEA initially reported in 2011. The economic inputs for that mining study are now considered outdated and the PEA results are no longer relevant. No additional work has been completed on the property since the effective date of the previous technical report. Any changes to the economic inputs to the mineral resource estimates are considered offsetting and therefore the estimates are unchanged since the last technical report. The Blue River Report, which incorporates all data from 2005 through 2012, shows indicated mineral resources totalling 48.4 million tonnes at 197 ppm Ta₂O₅ and 1.610 ppm Nb₂O₅ and inferred mineral resources totalling 5.4 million tonnes at 191 ppm Ta₂O₅ and 1,760 ppm Nb₂O₅. A total of 271 drill holes comprising 59,110 metres of HQ drill core and 15,512 samples were used to develop the mineral resource estimate.

Use of Funds

During the last two years, the Company has raised gross proceeds of over \$11 million. The proceeds were all raised for the specific purpose of advancing the Company's Eldor Property and for general working capital purposes. During this time, the Company has used approximately \$10 million of the proceeds for work on the Company's properties and \$1 million on general working capital.

On November 27, 2015, the Company closed a first tranche of a non-brokered flow-through private placement for gross proceeds of \$1,650,429. The Company issued 15,003,900 flow-through shares ("FT Shares") at a price of \$0.11 per FT Share. On December 24, 2015, the Company closed second tranche of

a non-brokered private placement, for gross proceeds of \$323,796. The Company issued 2,943,600 flow-through shares (“FT Shares”) at a price of \$0.11 per FT Share. The Company paid a total of \$116,793 and issued 1,061,750 warrants exercisable at \$0.11 per warrant share for a period of two years to various finders. The fair value of the shares at the date of issuance ranged from \$0.075 to \$0.085 where the exercise price is greater than the market price. As a result, the Company allocated \$472,506 to liability for flow through shares from the issuance of FT Shares

On December 22, 2014, the Company closed a non-brokered private placement of 12,025,000 flow-through shares (“FT Shares”) at a price of \$0.25 per FT Share, and 2,500,000 units (“Units”) at a price of \$0.20 per Unit for gross proceeds of \$3,506,250. Each Unit consists of one non flow-through common share and one-half of one non-flow-through common share purchase warrant in the capital of the Company (“Warrant”). One whole Warrant is exercisable into one additional common share in the capital of the Company (a “Warrant Share”) at a price of \$0.30 per Warrant Share until June 19, 2016

For additional details regarding the Company’s recent financing, please refer to Note 12 of the Company’s most recent financial statements.

General and Administrative

Net loss for the six months ended April 30, 2016, was \$682,562, compared to a net loss during the six months ended April 30, 2015 of \$414,750, for a difference of \$267,812. The significant expenses include:

- Administrative fees (2016: \$322,860; 2015: \$322,860) paid for management services;
- Advertising and website expenses (2016: \$139,039; 2015: \$264,324) and travel expenses (2016: \$50,384; 2015: \$57,496) were reduced and offset by a small increase in investor relations expenses (2016: \$34,648; 2015: \$31,309) as the Company significantly reduced expenses to conserve cash;
- Consulting fees (2016: \$73,987; 2015: \$101,193) and professional fees (2016: \$21,730, 2015: \$161,177) decreased as the Company significantly reduced expenses to conserve cash;
- Filing fees and transfer agent costs (2016: \$34,432, 2015: \$41,879) decreased due to reduced business activities in the current year’s period;
- Office, telephone and miscellaneous costs (2016: \$6,170, 2015: \$23,042) decreased due to cost-cutting measures;
- Interest income (2016: \$2,672, 2015: \$28,431) decreased as the Company’s investments were reduced;
- Interest expense and others (2016: \$234,418; 2015: \$nil) increased due to interest expense charged on renounced flow through expenditures using the look-back rule;
- Foreign exchange losses (2016: \$3,307, 2015: \$nil) increased due to the change in exchange rates on US dollar payables;
- Impairment of mineral property (2016: \$nil; 2015: \$9,081) decreased as the Company allowed claims on the Lac Dupuisson property to lapse in the prior year’s period;
- Gain on the disposition of asset backed commercial paper (2016: \$181,186; 2015: \$5,457) increased due to significant redemptions during the current year’s period; and
- Deferred tax recovery (2016: \$60,201; 2015: \$569,773) decreased due to decreased flow through renunciations in the current period.

Asset Backed Commercial Paper

As at April 30, 2016, the Company held asset-backed commercial paper (“ABCP”) issued by a number of trusts with an original cost of \$153,666 (October 31, 2015: \$770,463). On the dates the Company acquired these investments, they were rated R1 (High) by Dominion Bond Rating Services (“DBRS”). More information on ABCP can be found in Note 9 of the condensed interim financial statements for the six months ended April 30, 2016.

During the six months ended April 30, 2016, the Company received payments from settlement of \$430,072 (April 30, 2015: \$5,772) and recognized a gain on sale of ABCP of \$181,186 (April 30, 2015: \$5,457). As at April 30, 2016, the fair value of the ABCP as determined above was \$14,648 (October 31, 2015: \$329,278) and the Company recorded an unrealized loss of \$65,744 (April 30, 2015: \$315 gain) from this instrument.

Marketable Securities

As at April 30, 2016, the Company had \$31,214 (October 31, 2015 - \$22,571) in marketable securities, valued at fair market value. The Company’s marketable securities are comprised of securities that it received in the sale or optioning of property interests and purchased in private placements. More information on marketable securities can be found in Note 5 of the condensed interim financial statements for the six months ended April 30, 2016.

Summary of Quarterly Results

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

| | April 30, 2016 | January 31, 2016 | October 31, 2015 | July 31, 2015 | April 30, 2015 | January 31, 2015 | October 31, 2014 | July 31, 2014 |
|---|-------------------|---------------------|---------------------|------------------|-------------------|---------------------|---------------------|------------------|
| Revenues | Nil | Nil | Nil | Nil | Nil | Nil | Nil | Nil |
| Income (loss) before income taxes, discontinued and extraordinary items (Total) | (277,599) | (465,164) | (2,243,912) | (410,403) | (563,157) | (421,366) | (511,303) | (417,027) |
| Basic and diluted loss before discontinued and extraordinary items (Per share) | (0.001) | (0.002) | (0.010) | (0.002) | (0.003) | (0.002) | (0.003) | (0.002) |
| Net income (loss) (total) | (248,024) | (434,538) | (2,058,085) | (14,520) | (100,668) | (314,082) | (488,189) | (365,094) |
| Basic and diluted net income (loss) (per share) | (0.001) | (0.002) | (0.010) | (0.000) | (0.000) | (0.002) | (0.003) | (0.002) |

Over the course of the Company’s previously completed eight quarters, the Company’s loss before income taxes has remained at a consistent level with some notable exceptions. During the quarter ended October 31, 2014, additional advertising and travel expenses were incurred. During the quarter ended April 30, 2015, the Company incurred additional costs for professional fees paid towards advancing the Company’s projects. During the quarter ended October 31, 2015, the significant increase in loss before income taxes relates to the impairment of mineral properties and the permanent write-down of marketable securities. During the quarter ended April 30, 2016, the Company significantly reduced its expenses. The Company’s net income for the previously completed eight quarters fluctuated only due to the income tax recovery on the renunciation of flow through expenditures.

Second Quarter

Net loss for the three months ended April 30, 2016, was \$682,562, compared to a net loss during the six months ended April 30, 2015 of \$414,750, for a difference of \$267,812. The significant expenses include:

- Administrative fees (2016: \$161,430; 2015: \$161,430) paid for management services;
- Advertising and website expenses (2016: \$59,456; 2015: \$124,399), travel expenses (2016: \$34,036; 2015: \$44,140), and investor relations expenses (2016: \$16,874; 2015: \$24,497) were significantly reduced to conserve cash;
- Consulting fees (2016: \$34,780; 2015: \$75,268) and professional fees (2016: \$14,007, 2015: \$105,290) decreased as the Company reduced expenses to conserve cash;
- Filing fees and transfer agent costs (2016: \$26,558, 2015: \$35,824) decreased due to reduced business activities in the current period;
- Office, telephone and miscellaneous costs (2016: \$2,029, 2015: \$6,769) decreased due to cost-cutting measures;
- Interest income (2016: \$796, 2015: \$14,175) decreased as the Company's investments during the period were reduced;
- Interest expense and others (2016: \$78,875; 2015: \$nil) increased due to interest expense charged on renounced flow through expenditures using the look-back rule;
- Gain on the disposition of asset backed commercial paper (2016: \$152,473; 2015: \$3,260) increased due to significant redemptions during the current period; and
- Deferred tax recovery (2016: \$29,575; 2015: \$462,489) decreased due to decreased flow through renunciations in the current period.

Liquidity and Capital Resources

Since March 2014, the Company has raised over \$11 million to further the Company's mineral properties and for general working capital. Of the funds raised, approximately \$10 million was spent on the properties and \$1 million was used for general working capital. The company believes it will be able to raise the capital required to continue to develop these properties. The Company does not have any specific work commitments or property payments, all work on the property is determined by how to best spend the funds raised, taking into consideration the Company's working capital requirements. The Company has maintained reasonable general and administrative expenditures, with advertising and promotion of the property dependent on the capital available to cover such expenditures.

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

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

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

All of the Company's properties are in the exploration 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.

As at April 30, 2016, the Company has total assets of \$60,046,713 (October 31, 2015: \$59,746,192). The primary assets of the Company are exploration and evaluation assets of \$58,708,552 (October 31, 2015: \$58,329,266), short term investments of \$476,500 (October 31, 2015: \$184,500), asset backed commercial paper carried at \$14,648 (October 31, 2015: \$329,278), equipment of \$498,589 (October 31, 2015: \$514,845), marketable securities carried at \$31,214 (October 31, 2015: \$22,571), reclamation bonds of \$82,000 (October 31, 2015: \$82,000), mining tax receivables of \$27,731 (October 31, 2015: \$27,731), non-current prepaid expenses of \$65,000 (October 31, 2015: \$65,000), current prepaid expenses of \$103,159 (2014: \$116,595), GST/HST receivable of \$23,517 (October 31, 2015: \$62,234), amounts receivable of \$4,101 (October 31, 2015: \$6,830), and cash and cash equivalents of \$11,702 (October 31, 2015: \$5,342). The Company has no long-term liabilities and has working capital deficiency of \$1,507,399 (October 31, 2015: \$2,076,231) as at April 30, 2016.

Cash Used in Operating Activities: Cash used in operating activities during the six months ended April 30, 2016 was \$1,598,083, compared with \$1,163,587 of cash used in operating activities during the six months ended April 30, 2015.

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

Cash Used in Investing Activities: Total cash used in investing activities during the six months ended April 30, 2016 was \$224,958, compared to \$2,972,651 of cash used in investing activities during the six months ended April 30, 2015. During the six months ended April 30, 2016, the Company:

- spent \$363,030 (2015 – \$4,467,923) on the exploration and development of its mineral properties,
- spent \$292,000 (2015 – \$1,489,500 provided) on short-term investments, and
- received \$430,072 (2015 - \$5,772) from the redemption of asset-backed commercial paper.

Cash Provided by Financing Activities: Cash provided by financing activities during the six months ended April 30, 2016 was \$1,829,401, from the issuance of shares, compared with \$3,272,328 of cash provided by financing activities during the six months ended April 30, 2015.

Commitments

On December 1, 2015, the Company renewed its Management & Administration Agreement with Zimtu Capital Corp. ("Zimtu") for a period of 12 months. 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 \$53,810 per month.

Transactions with Related Parties

During the six months ended April 30, 2016 and 2015, the Company incurred the following expenses to officers or directors of the Company or companies with common directors:

| | Six months ended April 30, | |
|-------------------------------------|-----------------------------------|------------------|
| | 2016 | 2015 |
| Key management compensation* | \$ | \$ |
| Consulting fees | - | 45,868 |
| Geological services | 256,551 | 1,474,614 |
| Administrative fees | 322,860 | 322,860 |
| Advertising and promotion | 18,500 | 16,756 |
| Total | 597,911 | 1,860,098 |

| | April 30, | October 31, |
|--|------------------|--------------------|
| | 2016 | 2015 |
| Amounts due to (from) related parties | \$ | \$ |
| Dahrouge Geological Consulting (a) | 451,473 | 694,198 |
| Nimbus Resource Management (b) | - | 2,016 |
| Axel Hoppe, Director | - | 21,306 |
| Zimtu Capital Corp. (c) | 154,655 | 61,470 |
| Due to related parties – Total | 606,128 | 778,990 |

- (a) A company controlled by a director of the Company, Jody Dahrouge.
- (b) A company owned by a director of the Company, Jenna Hardy. Ms. Hardy did not run for re-election at the Company's Annual General Meeting held on May 20, 2015, and ceased to be a director on that day.
- (c) A company providing key management services.

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

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

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

Off Balance Sheet Arrangements

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

Subsequent Events

- a) On June 21, 2016, the Company filed its amended and restated final short form prospectus, amending and restating the short form prospectus dated Feb. 25, 2016, with the securities regulatory authorities in the provinces of British Columbia, Alberta and Ontario in connection with a best-efforts offering of units of the company at a reduced price of 7.5 cents per unit for gross proceeds of a minimum of \$1-million and up to a maximum of \$3-million. The offering is being conducted by Secutor Capital Management Corp. The overallotment option granted to the agent remains, whereby the agent may

sell up to an additional 15 per cent of the offering on the same terms and conditions, exercisable at any time following the closing of the offering for a period of 30 days.

Each unit will still consist of one common share of the company and one common share purchase warrant with each warrant entitling the holder to acquire an additional common share of commerce at a reduced price of 10 cents per warrant share at any time before 4:30 p.m. (Vancouver time) on the date that is 24 months after the closing of the offering.

The company intends to use the net proceeds from the offering to advance the company's Ashram rare earth element deposit in Quebec and for general working capital purposes.

To reflect the reduced pricing of the offering, the company and the agent entered into an amended and restated agency agreement. With the exception of the amended pricing and certain dates, the terms of original agency agreement remain, whereby the company has agreed to: (i) pay the agent a cash commission equal to 7 per cent of the gross proceeds of the offering and a reduced cash commission of 2 per cent on purchasers, if any, whose name appear on the list of purchasers to the offering to the agent by insiders of the company, and (ii) issue to the agent share purchase warrants with each agent's warrant entitling the agent to acquire that number of common shares in the capital of Commerce equal to 7 per cent of the number of units sold under the offering and a reduced number agent's warrants equal to 2 per cent on purchasers, if any, whose name appear on the president's list.

The closing of the offering is expected to occur on or about June 30, 2016, or on such other date as the company and the agent may agree, but in any event no later than the 180th day after Feb. 26, 2016. The offering is subject to customary conditions and regulatory approval, including that of the TSX Venture Exchange.

- b) On June 19, 2016, 1,250,000 share purchase warrants priced at \$0.30 and 725,000 agent's warrants priced at \$0.24 expired unexercised.

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 October 31, 2015</u> | <u>Year ended October 31, 2014</u> |
|---|---|---|
| Capitalized or Expensed Exploration and Development Costs | \$9,006,544 | \$2,676,330 |
| General and Administration Expenses | \$1,931,446 | \$1,583,157 |

Disclosure of Outstanding Share Capital

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

| | <u>June 27, 2016</u> | <u>April 30, 2016</u> | <u>October 31, 2015</u> | <u>October 31, 2014</u> |
|----------------------|-----------------------------|------------------------------|--------------------------------|--------------------------------|
| Common Shares | 234,409,864 | 234,409,864 | 216,462,364 | 201,937,364 |
| Stock Options | 3,830,000 | 3,830,000 | 6,915,000 | 7,971,908 |
| Warrants | - | 1,250,000 | 6,058,550 | 10,527,634 |
| Agents' Warrants | 1,061,750 | 1,786,750 | 1,767,502 | 1,042,502 |
| Fully Diluted Shares | 239,301,614 | 241,276,614 | 237,494,408 | 221,479,408 |

For additional details of outstanding share capital, refer to Notes 12 and 13 of the condensed interim financial statements for the six months ended April 30, 2016.

Future Accounting Standards

For details of the Company's New Accounting Standards Adopted and New Accounting Pronouncements, please refer to Note 4 of the Company's audited financial statements for the year ended October 31, 2015.

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, short term investments, amounts receivable, due from related parties and investments in asset-backed commercial paper are subject to credit risk for a maximum of the amounts shown on the statements of financial position. The Company monitors its credit risk management practices continuously to evaluate their effectiveness.

At April 30, 2016, cash and cash equivalents of \$11,702 (October 31, 2015: \$5,342) consisted of cash balances with Canadian chartered banks. As at April 30, 2016, the Company also held short term investments of \$476,500 (October 31, 2015: \$184,500) in GIC's at a Canadian chartered bank and asset-backed commercial paper fair valued at \$14,648 (October 31, 2015: \$329,278).

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, short term investments, and investments in asset-backed commercial paper. The sensitivity in interest rates of a decrease by 1% would result in an approximate decrease of \$5,000 (April 30, 2015: \$26,000) 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, 2016 is \$nil (April 30, 2015: \$3,000).

d) **Fair Value**

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

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

The following is an analysis of the Company's financial assets measured at fair value as at April 30, 2016 and October 31, 2015:

| | As at April 30, 2016 | | |
|-------------------------------|-------------------------------|----------------|-------------------|
| | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | \$ 11,702 | \$ - | \$ - |
| Short term investments | 476,500 | - | - |
| Marketable securities | 31,214 | - | - |
| Asset-backed commercial paper | - | - | 14,648 |
| | \$ 519,416 | \$ - | \$ 14,648 |
| | As at October 31, 2015 | | |
| | Level 1 | Level 2 | Level 3 |
| Cash and cash equivalents | \$ 5,342 | \$ - | \$ - |
| Short term investments | 184,500 | - | - |
| Marketable securities | 22,571 | - | - |
| Asset-backed commercial paper | - | - | 329,278 |
| | \$ 212,413 | \$ - | \$ 329,278 |

Level 3 financial assets consist of the following investments in ABCP including Master Asset Vehicle II (“MAV II”) notes and Ineligible Asset Tracking notes as at April 30, 2016 and October 31, 2015:

| | April 30, 2016 | | | October 31, 2015 | | |
|-------------------------|----------------|----------------------|------------|------------------|----------------------|------------|
| | Face value | Fair value variances | Fair value | Face value | Fair value variances | Fair value |
| MAV II Notes | \$ | \$ | \$ | \$ | \$ | \$ |
| Class B | - | - | - | 353,772 | (57,888) | 295,884 |
| Class C | - | - | - | 233,913 | (215,167) | 18,746 |
| | - | - | - | 587,685 | (273,055) | 314,630 |
| Ineligible Asset | | | | | | |
| Tracking Notes | 151,881 | (137,233) | 14,648 | 182,778 | (168,130) | 14,648 |
| | 151,881 | (137,233) | 14,648 | 770,463 | (441,185) | 329,278 |

The MAV II notes received as a result of the restructuring of third party sponsored ABCP by the Pan-Canadian Investors Committee in January 2009 include a pooling of leveraged investments as well as traditional assets and cash. The leveraged investments are subject to a potential requirement post additional collateral based on certain triggers being met (a margin call). Traditional assets are unlevered investments and include residential and commercial mortgage backed securities, corporate credit and cash equivalents. Class A-1, Class A-2 and Class B Notes will bear interest at the Bankers’ Acceptance (“BA”) rate less 0.50% and Class C Notes will bear interests at the BA rate plus 20%.

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

The Company is aware of a number of trades in the restructured notes that have occurred prior to April 30, 2016, but does not consider them to constitute an active market. Accordingly, the Company has not used these trades to determine the fair value of its notes. As described in Note 9 of the condensed interim financial statements for the six months ended April 30, 2016, the Company has used a probability weighted discounted cash flows approach to determine the fair value of these investments, incorporating available information regarding market conditions as at the measurement date, April 30, 2016. These estimates arrived at by the Company are subject to measurement uncertainty and are dependent on market conditions as at the measurement date.

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

e) Capital Management

Capital is comprised of the Company’s shareholders’ equity and any debt it may issue. As at April 30, 2016, the Company’s shareholders’ equity was \$57,861,390 (October 31, 2015: \$57,244,158). The Company’s objectives when managing capital are to safeguard the Company’s ability to continue as a going concern and to maintain a flexible capital structure which will allow it to pursue the exploration of its mineral properties. Therefore, the Company monitors the level of risk incurred in its mineral property expenditures relative to its capital structure which is comprised of working capital and shareholders’ equity.

The Company monitors its capital structure and makes adjustments in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to facilitate the management of capital and the exploration of its mineral properties, the Company prepares annual expenditure budgets which are updated as necessary and are reviewed and periodically approved by the

Company's Board of Directors. To maintain or adjust the capital structure, the Company may issue new equity if available on favourable terms, option its mineral properties for cash and/or expenditure commitments from optionees, enter into joint venture arrangements, or dispose of mineral properties.

Industry and Economic Factors Affecting Performance

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

Risk Factors

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

Environmental Risks and Other Regulatory Requirements

Any future operations of the Company, including development activities and commencement of production on its properties, will require permits from various federal and local governmental authorities, and such operations are and will be governed by laws and regulations governing prospecting, development, mining, production, taxes, labour standards, occupational health, waste disposal, toxic substances, land use, environmental protection, mine safety and other matters. In addition, agreements may be required with local native people groups that could have a material 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.