

COMMERCE RESOURCES CORP.

MANAGEMENT DISCUSSION & ANALYSIS for the year ended October 31, 2004

MANAGEMENT DISCUSSION AND ANALYSIS

1.1 **Date of Report:** March 16, 2005

1.2 **Overall Performance**

Nature of Business and Overall Performance

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

FIR Tantalum/Niobium Property

The Fir property is located in the Kamloops Mining Division of British Columbia, approximately 30 kilometers north of the town of Blue River. The Company acquired a 100% interest in 69 units by staking in early 2000 and therefore is not subject to any underlying royalties.

As at report date, the Company has conducted exploration of the property which included sampling, 11 drill holes and detailed metallurgical investigations. The Company has outlined an inferred resource for the Fir property totalling 6.74 million tonnes grading 203.1 gpt Ta₂O₅ and 1,047 gpt Nb₂O₅. The Fir is also host to an indicated resource of 5.65 million tonnes grading 203.1 gpt Ta₂O₅ and 1,047 gpt Nb₂O₅. This resource estimate was prepared in accordance with the requirements of NI 43-101 by the Company's Qualified Person, Ruben Verzosa, P.Eng., as set out in his technical report dated March 6, 2003 and revised on November 30, 2004.

Exploration Program & Results

On September 6, 2004, the Company announced that it had received results from SGS Lakefield Research Limited ("SGS Lakefield") of a preliminary investigation of direct acid leaching of its tantalum and niobium gravity concentrate. SGS Lakefield was contracted to conduct a test work program to assess the feasibility of processing the Ta/Nb concentrate from the Fir deposit by hydrometallurgical techniques.

Direct leaching of the gravity concentrate using a hydrochloric acid pre-leach stage produced a concentrate assaying 54.9% Nb₂O₅ and 7.15% Ta₂O₅. This upgraded product responded well to a subsequent hydrofluoric acid and sulphuric acid leach with combined tantalum and niobium in the range 92% to 99%. The test results and summaries were reviewed by the Company's Qualified Person, Jeff Austin, P.Eng.

Future Developments

Management is encouraged by the positive results received to date and will continue to

maintain its focus on the development and exploration of the Fir deposit.

VERITY Tantalum/Niobium Property

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

Prior to the current year, the property has seen detailed exploration including detailed sampling and 35 drill holes. The Company has outlined an inferred resource for the Verity property totaling 3.06 million tonnes grading 196 gpt Ta₂O₅ and 646 gpt Nb₂O₅. This resource estimate was prepared in accordance with the requirements of NI 43-101 by the Company's Qualified Person, James McCrea, P.Geo., as set out in his technical report dated June 12, 2001.

1.3 Selected Annual Information

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

	Fiscal Year ended October 31:		
	2004	2003	2002
Total Revenues	Nil	Nil	Nil
Income (loss) from continuing operations	(396,677)	(433,545)	(436,218)
Income from continuing operations (per share)	(0.03)	(0.04)	(0.03)
Income from continuing operations (per share, fully diluted)	N/A	N/A	N/A
Net Income (loss) from continuing operations	(605,618)	(735,217)	(469,730)
Net Income (loss) from continuing operations (per share)	N/A	N/A	N/A
Net income (loss) from continuing operations (per share, fully diluted)	N/A	N/A	N/A
Total Assets	1,135,693	1,328,896	1,773,845
Total long term financial liabilities	Nil	Nil	Nil
Cash dividend declared per share	Nil	Nil	Nil

1.4 Results of Operations

General and Administrative

Net loss for the year ended October 31, 2004 was \$605,618 compared to a net loss of \$735,217 for the previous fiscal year. Additionally, administrative expenses for the year ended October 31, 2004 were \$396,677 compared to \$433,545 in the comparative fiscal year.

Investor Relations

During the year ended October 31, 2004, the Company did not incur investor relations charges. The Company has no investor relations agreements, and handles all activities and inquiries in house by office staff.

1.5 Summary of Quarterly Results

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

	October 31, 2004	July 31, 2004	April 30, 2004	January 30, 2004	October 31, 2003	July 31, 2003	April 30, 2003	January 30, 2003
Revenues	Nil	Nil	Nil	Nil	Nil	Nil	Nil	Nil
Income (loss) before discontinued and extraordinary items (Total)	(188,047)	(43,746)	(78,946)	(85,938)	(407,355)	(97,640)	(98,436)	(131,786)
Income (loss) before discontinued and extraordinary items (Per share)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Income (loss) before discontinued and extraordinary items (diluted per share)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net income (loss) (total)	(529,879)	(33,370)	(17,536)	(24,833)	(25,522)	(124,043)	(73,525)	(115,705)
Net income (loss) (per share)	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
Net income (loss) (diluted per share)	(0.03)	0.00	0.00	0.00	(0.04)	(0.01)	(0.01)	(0.02)

1.6 Liquidity and Solvency

The Company has total assets of \$1,135,693. The primary assets of the Company are deferred resource property costs of \$988,808, cash of \$62,572 and marketable securities carried at \$35,565. The Company has no long-term liabilities and a working capital deficiency of \$83,586. Subsequent to October 31, 2004, the Company raised \$337,125 via equity financings.

1.7 Capital Resources

The Company has no specific work commitments on its resource properties but, as discussed in Section 1.2 above, will continue to perform exploration work on its Fir property. In order to accommodate the resource exploration, the Company, since October 31, 2004, has raised \$337,125 including \$195,000 raised through the issuance of 1,300,000 units of the Company at a price of \$0.15 per unit.

1.8 Off Balance Sheet Arrangements

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

1.9 Transactions with Related Parties

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

	Years ended October 31,	
	<u>2004</u>	<u>2003</u>
Administration fees	\$25,200	\$25,200
Consulting fees	9,288	16,221
Deferred exploration and development costs	16,676	51,564
Rent	12,000	12,000
Wages and benefits	<u>83,257</u>	<u>80,942</u>
	<u>\$146,421</u>	<u>\$185,927</u>

1.10 Fourth Quarter

N/A

1.11 Proposed Transactions

N/A

1.12 Critical Accounting Estimates

For the year ended October 1, 2004, management has determined that write-downs totalling \$294,946 were required for its mineral properties, specifically the Auburd, Comm and Commerce claims.

1.13 Changes in Accounting Policies

Effective for fiscal years commencing on or after January 1, 2004, Canadian generally accepted accounting principles require the fair value of all share purchase options to be expensed over their vesting period with a corresponding increase to contributed surplus. Upon exercise of share purchase options, the consideration paid by the option holder, together with the amount previously recognized in contributed surplus, is recorded as an increase to share capital. Previously only share purchase options granted to non-employees followed this method and options granted to employees were not expensed.

The Company has adopted the new policy on a prospective basis with no restatement of prior periods. The Company uses the Black-Scholes option valuation model to calculate the fair value of share purchase options at the date of the grant. Option pricing models require the input of highly subjective assumptions, including the expected price volatility. Changes in these assumptions can materially affect the fair value estimate and, therefore, the existing do not necessarily provide a reliable single measure of the fair value of the Company's share purchase options

1.14 Financial Instruments and Other Instruments

The carrying value of the Company's financial instruments, consisting of cash, marketable securities, advances receivable, accounts payable, due to related party and convertible debenture approximate their fair values due to the short maturity of such instruments. The fair market value of due from related parties is also assumed to approximate their carrying amount. Unless otherwise noted, it is management's opinion

that the Company is not exposed to significant interest, currency or credit risks arising from these financial instruments.

1.15 Other MD&A Requirements

Disclosure of Outstanding Share Capital

Authorized:

100,000,000 common shares without par value

Issued:

		2004	
	Number	Amount	
Balance, beginning of the year	18,642,695	\$2,774,052	
Issued to settle debts – at \$0.11	1,240,010	136,401	
Issued for cash:			
– Pursuant to private placements – at \$0.10	1,235,869	123,587	
– Pursuant to the exercise of warrants – at \$0.10	<u>215,000</u>	<u>21,500</u>	
Balance, end of the year	<u>21,333,574</u>	<u>3,055,540</u>	

Commitments:

Stock-based Compensation Plan

The Company has granted employees and directors common share purchase options. These options were granted with an exercise price equal to their fair value on the date of the grant and vest immediately.

Options outstanding and exercisable at the end of the year:

<u>Shares</u>	<u>Weighted Average Exercise Price</u>
1,960,000	\$0.11

At October 31, 2004, the Company had 1,960,000 share purchase options outstanding entitling the holders thereof the right to purchase one common share as follows:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
500,000	\$0.14	December 29, 2005
160,000	\$0.13	April 30, 2006
<u>1,300,000</u>	\$0.10	January 23, 2007
<u>1,960,000</u>		

At October 31, 2004, the following share purchase warrants were outstanding entitling the holder thereof the right to purchase one common share:

<u>Number</u>	<u>Exercise Price</u>	<u>Expiry Date</u>
1,020,869	\$0.10	January 6, 2005
103,000	\$0.14	January 30, 2005
<u>2,507,430</u>	\$0.12	May 26, 2005
<u>3,631,299</u>		

