



## Financial Statements

October 31, 2015 and 2014

(Expressed in Canadian Dollars)

## Management's Responsibility

To the Shareholders of Commerce Resources Corp. (the "Company"):

Management is responsible for the preparation and presentation of the accompanying financial statements, including responsibility for significant accounting judgments and estimates in accordance with International Financial Reporting Standards and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of financial statements.

The Board of Directors and Audit Committee are composed primarily of Directors who are neither management nor employees of the Company. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Board fulfils these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Board of Directors is also responsible for recommending the appointment of the Company's external auditors.

MNP LLP is appointed by the shareholders to audit the financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

February 26, 2016

(signed)

*Christopher Grove*  
President and director

(signed)

*Jody Bellefleur*  
CFO

## Independent Auditors' Report

To the Shareholders of Commerce Resources Corp.:

We have audited the accompanying financial statements of Commerce Resources Corp., which comprise the statements of financial positions as at October 31, 2015 and 2014, the statements of operations and comprehensive loss, changes in equity and cash flows for the years then ended, and notes comprising a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Financial Statements*

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

### *Auditors' Responsibility*

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian Auditing Standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

### *Opinion*

In our opinion, the financial statements present fairly, in all material respects, the financial position of Commerce Resources Corp. as at October 31, 2015 and 2014, and the results of its operations and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Vancouver, Canada  
February 26, 2016

  
Chartered Professional Accountants

# Commerce Resources Corp.

## Statements of Financial Position

As at October 31,

As expressed in Canadian dollars

	2015	2014
<b>Assets</b>		
<b>Current</b>		
Cash and cash equivalents	\$ 5,342	\$ 1,286,584
Marketable securities (Note 5)	22,571	82,178
Short term investment (Note 6)	184,500	4,534,500
Amounts receivable	6,830	21,130
Mining tax receivable (Note 7)	27,731	40,294
GST/HST receivable	62,234	28,836
Due to a related party (Note 15)	-	29,281
Prepaid expenses (Note 8)	116,595	152,759
	<b>425,803</b>	<b>6,175,562</b>
Prepaid expenses – non-current (Note 8)	65,000	232,337
Investment - asset-backed commercial paper (Note 9)	329,278	292,482
Equipment (Note 10)	514,845	552,573
Exploration and evaluation assets (Note 11 and Schedule I)	58,329,266	50,778,686
Reclamation bonds	82,000	82,000
	<b>\$ 59,746,192</b>	<b>\$ 58,113,640</b>
<b>Liabilities</b>		
<b>Current</b>		
Accounts payable and accrued liabilities	\$ 1,389,435	\$ 327,439
Due to related parties (Note 15)	778,990	167,357
Liability for flow-through shares (Note 18)	333,609	703,467
	<b>2,502,034</b>	<b>1,198,263</b>
<b>Shareholders' Equity</b>		
Share capital (Note 12)	78,307,911	75,918,034
Reserves (Note 12 and 13)	8,259,350	8,158,524
Accumulated other comprehensive income (loss)	309,629	(15,804)
Deficit	(29,632,732)	(27,145,377)
	<b>57,244,158</b>	<b>56,915,377</b>
	<b>\$ 59,746,192</b>	<b>\$ 58,113,640</b>

Approved and authorized by the Board of Directors on February 26, 2016:

*“Christopher Grove”*

Director

*“David Hodge”*

Director

The accompanying notes are an integral part of these financial statements.

**Commerce Resources Corp.**  
**Statements of Operations and Comprehensive Loss**  
For the years ended October 31,  
As expressed in Canadian dollars

	2015	2014
<b>Expenses</b>		
Administration fees and rent (Note 14)	\$ 645,720	\$ 599,420
Advertising and website	390,519	468,211
Consulting fees (Note 15)	220,272	191,776
Filing and transfer agent fees	83,009	41,742
Insurance	12,052	10,793
Investor relations	87,785	33,000
Office, telephone and miscellaneous	31,323	27,702
Professional fees	262,486	93,053
Travel and promotion	198,280	117,460
<b>Loss before other items</b>	<b>(1,931,446)</b>	<b>(1,583,157)</b>
<b>Other items:</b>		
Interest income	49,387	17,300
Interest expenses and others	-	(39,067)
Foreign exchange gains (losses)	23,361	-
Loss on sale of Treasure Mountain Property	-	(80,244)
Impairment of exploration and evaluation assets (Note 11)	(1,447,744)	-
Permanent write-down of marketable securities (Note 5)	(322,703)	-
Gain on disposition of asset backed commercial paper (Note 9)	9,204	10,006
Loss on disposition of marketable securities (Note 5)	(18,897)	-
	<b>(1,707,392)</b>	<b>(92,005)</b>
<b>Loss before income taxes</b>	<b>(3,638,838)</b>	<b>(1,675,162)</b>
<b>Deferred tax recovery</b> (Note 19)	<b>1,151,483</b>	<b>219,411</b>
<b>Net loss for the year</b>	<b>(2,487,355)</b>	<b>(1,455,751)</b>
<b>Other comprehensive income (loss) for the year</b>		
Change in fair value of available-for-sale financial assets (Note 5 & 9)	325,433	51,717
<b>Net comprehensive loss for the year</b>	<b>\$ (2,161,922)</b>	<b>\$ (1,404,034)</b>
<b>Basic and diluted loss per share</b>	<b>\$ (0.01)</b>	<b>\$ (0.01)</b>
<b>Weighted average number of common shares outstanding – basic and diluted</b>	<b>214,393,049</b>	<b>176,973,927</b>

The accompanying notes are an integral part of these financial statements.

## Commerce Resources Corp.

Statements of Changes in Equity  
For the years ended October 31,  
As expressed in Canadian dollars

	Number of Shares	Share Capital	Reserves	Accumulated Other Comprehensive Loss	Deficit	Total
<b>Balance, October 31, 2013</b>	<b>166,983,642</b>	<b>\$ 69,644,443</b>	<b>\$ 7,850,467</b>	<b>\$ (67,521)</b>	<b>\$ (25,689,626)</b>	<b>\$ 51,737,763</b>
Flow-through private placements	24,467,152	4,506,178	547,667	-	-	5,053,845
Private placements	7,821,050	1,416,483	340,069	-	-	1,756,552
Stock options exercised	2,045,000	999,182	(692,432)	-	-	306,750
Warrants exercised	620,520	177,056	(21,926)	-	-	155,130
Share issue costs	-	(825,308)	134,679	-	-	(690,629)
Change in fair value of available-for-sale financial assets	-	-	-	51,717	-	51,717
Net loss for the year	-	-	-	-	(1,455,751)	(1,455,751)
<b>Balance, October 31, 2014</b>	<b>201,937,364</b>	<b>\$ 75,918,034</b>	<b>\$ 8,158,524</b>	<b>\$ (15,804)</b>	<b>\$ (27,145,377)</b>	<b>\$ 56,915,377</b>
Flow-through private placements	12,025,000	2,224,625	-	-	-	2,224,625
Private placements	2,500,000	462,500	37,500	-	-	500,000
Share issue costs	-	(297,248)	63,326	-	-	(233,922)
Change in fair value of available-for-sale financial assets	-	-	-	325,433	-	325,433
Net loss for the year	-	-	-	-	(2,487,355)	(2,487,355)
<b>Balance, October 31, 2015</b>	<b>216,462,364</b>	<b>\$ 78,307,911</b>	<b>\$ 8,259,350</b>	<b>\$ 309,629</b>	<b>\$ (29,632,732)</b>	<b>\$ 57,244,158</b>

The accompanying notes are an integral part of these financial statements.

# Commerce Resources Corp.

## Statements of Cash Flows

For the years ended October 31,

As expressed in Canadian dollars

	2015	2014
<b>CASH FLOWS FROM (USED IN) OPERATING ACTIVITIES:</b>		
Net (loss) for the year	\$ (2,487,355)	\$ (1,455,751)
Add (deduct) items not affecting cash:		
Loss on disposition of marketable securities	18,898	-
Deferred tax recovery	(1,151,483)	(219,411)
Gain on disposition of asset-backed commercial paper	(9,204)	(10,006)
Loss on sale of Treasure Mountain Property	-	80,244
Permanent write-down of marketable securities	322,703	-
Impairment of exploration and evaluation assets	1,447,744	-
	(1,858,697)	(1,604,924)
Changes in non-cash working capital items related to operations:		
Amounts receivable	43,581	97,500
Mining tax credits receivable	21,104	1,506,732
GST/HST receivable	(33,398)	28,957
Prepaid expenses	203,501	(47,464)
Due to (from) related parties	609,617	4,375
Accounts payable and accrued liabilities	63,478	65,465
<b>Net cash flows provided by (used in) operating activities</b>	<b>(950,814)</b>	<b>50,641</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES:</b>		
Issue of share capital, net of share issuance costs	3,272,329	7,476,078
<b>Net cash flows provided by financing activities</b>	<b>3,272,329</b>	<b>7,476,078</b>
<b>CASH FLOWS FROM (USED IN) INVESTING ACTIVITIES:</b>		
Acquisition of investments	-	(25,000)
Redemption of Asset-backed commercial paper	9,745	10,821
Redemption (purchase) of short-term investments	4,350,000	(4,400,000)
Proceeds from sale of resource property	-	125,000
Proceeds from sale of marketable securities	6,102	-
Exploration and evaluation costs, net of tax credits received	(7,968,604)	(2,551,516)
<b>Net cash flows used in investing activities</b>	<b>(3,602,757)</b>	<b>(6,840,695)</b>
<b>Increase (decrease) in cash and cash equivalents</b>	<b>(1,281,242)</b>	<b>686,024</b>
<b>Cash and cash equivalents, beginning of year</b>	<b>1,286,584</b>	<b>600,560</b>
<b>Cash and cash equivalents, end of year</b>	<b>\$ 5,342</b>	<b>\$ 1,286,584</b>

### Supplemental disclosure with respect to cash flows – Note 17

The accompanying notes are an integral part of these financial statements.

# Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

Expressed in Canadian Dollars

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## 1. NATURE OF OPERATIONS AND CONTINUANCE OF OPERATIONS

Commerce Resources Corp. (“Commerce” or the “Company”) was incorporated on May 19, 1999, under the Company Act of British Columbia and is in the business of acquiring, exploring, developing and evaluating mineral resource properties, and either joint venturing or developing these properties further or disposing of them when the evaluation is completed. The Company is in the exploration stage and has interests in properties located in British Columbia (“BC”) and Quebec, Canada. Commerce is a public 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 head office, principal address and registered and records office of the Company are located at 1450 – 789 West Pender, Vancouver, BC, Canada, V6C 1H2.

These financial statements were authorized for issue by the Audit Committee and Board of Directors on February 26, 2016.

The Company had cash and short term investments of \$189,842 (2014 - \$5,821,084) and a working capital deficit of \$2,076,231 at October 31, 2015 (2014 - \$4,977,299 surplus). These financial statements have been prepared on a going concern basis which assumes that the Company will continue operating for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. The Company has in place a planning, budgeting and forecasting process to help determine the funds required to support the Company’s normal operations on an ongoing basis and its expansionary plans. The Company expects to have sufficient liquidity and capital resources to meet its ongoing obligations and future contractual commitments for at least twelve months from the date of the approval of the financial statement. The Company expects its liquidity to remain sufficient based on anticipated cash flow streams from the equity financings. In the recent years, the Company has successfully raised significant operating funds from equity financing, even in a difficult economic climate. It is to the management’s strong belief that the necessary operating funds can be acquired through equity financing given the Company’s share price has been revived and there is strong interest from investors for new shares. Also, the Company continues to minimize uncommitted capital expenditures and exploration expenditures in order to preserve the Company’s financial resources.

## 2. BASIS OF PRESENTATION

### Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”).

### Basis of Measurement

These financial statements have been prepared on a historical costs basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value. In addition, this financial statement has been prepared using the accrual basis of accounting.

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

# Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

Expressed in Canadian Dollars

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## 3. SIGNIFICANT ACCOUNTING JUDGMENTS, ESTIMATES AND ASSUMPTIONS

### Estimates and assumptions

In particular, information about significant areas of estimation uncertainty considered by management in preparing the financial statements includes:

- The recoverability of mining tax receivable;
- The recoverability of the carrying value of the exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest;
- The inputs used in assessing the recoverability of deferred income tax assets to the extent that the deductible temporary differences will reverse in the foreseeable future and that the Company will have future taxable income;
- The useful lives and related depreciation of plant and equipment;
- Management's assumption that there are currently no decommissioning liabilities is based on the facts and circumstances that have existed during the periods;
- The inputs used in accounting for share-based payments in the statements of operations and comprehensive loss; and
- The determination of fair value of asset-backed commercial paper based on numerous assumptions, including interest and market risk rates, and factors that are beyond the Company's control such as the ultimate settlement amounts, timing of settlement and changes in the credit ratings. The fair value of the asset-backed commercial paper is subject to uncertainty and it is reasonably possible that the recognized amount could change by a material amount in the near term.

### Judgments

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies from those involving estimations that have the most significant effect on the amounts recognized in the Company's financial statements are as follows:

- Economic recoverability and probability of future economic benefits of exploration, evaluation and development costs

Management has determined that exploratory drilling, evaluation, development and related costs incurred which have been capitalized are economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefit including geologic information, scoping and feasibility studies, accessible facilities, existing permits and life of mine plans.

- Production stage of a mine

The determination of the date on which a mine enters the production stage is a significant judgment since capitalization of certain costs ceases upon entering production.

- Provisions for reclamation

Management assesses its provision for reclamation on an annual basis or when new information becomes available. This assessment includes the estimation of the future rehabilitation costs, the timing of these expenditures, and the impact of changes in discount rates. The actual future expenditures may differ from the amounts currently provided if the estimates made are significantly different than actual results or if there are significant changes in environmental and/or regulatory requirements in the future.

# Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

Expressed in Canadian Dollars

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## 4. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

### *Foreign currency translation*

The Company's presentation currency and functional currency is the Canadian dollar as this is the principal currency of the economic environment in which it operates.

Transactions in foreign currencies are initially recorded in the Company's functional currency at the exchange rate at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange ruling at the end of each reporting period.

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates as at the dates of the initial transactions and are not subsequently restated. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when fair value is determined.

All gains and losses on translation of these foreign currency transactions are included in profit or loss.

### *Cash and cash equivalents*

Cash and cash equivalents consist of cash on hand; deposits in banks and highly liquid investments with an original maturity of three months or less. There were cash equivalents of \$nil as at October 31, 2015 (2014: \$342,091) which were held as investments in money market funds.

### *Short-term investments*

Short-term investments are investments which are transitional or current in nature, with an original maturity greater than three months but less than one year.

### *Marketable securities*

Marketable securities consist of common shares of publicly-traded companies listed on the TSX Venture Exchange. Marketable securities are classified as available-for-sale and are recorded at their fair values using quoted market prices at the statement of financial position date. Subsequent revaluation resulting in unrealized gains or losses is recorded in the statements of operations and comprehensive income (loss).

### *Exploration and evaluation costs*

Exploration and evaluation activities involve the search for minerals, the determination of technical feasibility, and the assessment of commercial viability of an identified resource.

Exploration and evaluation costs incurred prior to obtaining licenses are expensed in the period in which they are incurred. Once the legal right to explore has been acquired, exploration and evaluation costs incurred are capitalized. All capitalized exploration and evaluation costs are recorded at acquisition cost and are monitored for indications of impairment. Where there are indications of a potential impairment, an assessment is performed for recoverability. Capitalized costs are charged to the statement of comprehensive loss to the extent that they are not expected to be recovered.

# Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

Expressed in Canadian Dollars

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## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### *Exploration and evaluation costs - continued*

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets are tested for impairment and transferred to “Mines under construction”. No amortization during the exploration and evaluation phase.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

### *Reclamation bonds*

Reclamation bonds are required by the Ministry of Natural Resources and are mostly represented by Guaranteed Interest Certificates (“GIC”) held in the Company’s name at a bank. The Company is entitled to interest on the GICs which is earned at an interest rate ranging from 0.75% to prime minus 1.95%. The reclamation bonds cannot be withdrawn by the Company without the consents of the Ministry of Natural Resources.

### *Equipment*

Equipment is recorded at cost less accumulated amortization. Amortization is calculated over the estimated useful lives using the following rates:

Field equipment	3 year straight-line
Field office building	5% declining balance
Leasehold improvements	12 year straight-line

### *Warrants*

Proceeds from issuances by the Company of units consisting of shares and warrants are allocated based on the residual method, whereby the carrying amount of the warrants is determined based on any difference between gross proceeds and the estimated fair market value of the shares. If the proceeds from the offering are less than or equal to the estimated fair market value of shares issued, a nil carrying amount is assigned to the warrants.

### *Flow-through shares*

Flow-through shares entitle a company that incurs certain resource expenditures in Canada to renounce them for tax purposes allowing the expenditures to be deducted for tax purposes by the investors who purchased the shares. While IFRS contains no specific guidance on accounting for flow-through shares, the Company has chosen to adopt the following accounting policy:

At the time of closing a financing involving flow-through shares, the Company allocates the gross proceeds received (i.e. the “flow-through commitment”) as follows:

- Share capital – the fair market price at the date of the issue;
- Flow-through share premium – recorded as a liability and equal to the estimated premium, if any, investors pay for the flow-through feature, i.e. the portion in excess of the market value of the shares without the flow-through features at the time of issue; and
- Fair value of warrants – if warrants are being issued, based on the valuation derived using the residual method.

# Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

Expressed in Canadian Dollars

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## 4. SIGNIFICANT ACCOUNTING POLICIES – continued

### *Flow-through shares - continued*

In the case that the Company does not issue non flow-through units together with the flow-through units, the flow-through share premium is determined by using the residual method, whereby the fair value of warrants will be valued based on the Black-Scholes option-pricing model, and the flow-through share premium equal to any residual balance after the fair market price of the common shares and fair value of warrants.

Therefore, as qualifying resource expenditures are incurred, these costs are capitalized to exploration and evaluation assets.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the “Look-back” Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

### *Mining tax credits and mining duties*

Mining tax credits and mining duties are recorded in the accounts when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions needed to obtain the credits and mining duties. These refundable mining tax credits and mining duties are earned in respect to exploration costs incurred in BC and Quebec, Canada and are recorded as a reduction of the related deferred exploration expenditures.

### *Financial instruments*

#### *i. Financial assets*

The Company classifies its financial assets in the following categories: Fair value through profit or loss, held-to-maturity investments, loans and receivables, and available-for-sale. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of assets at recognition.

- Financial assets at fair value through profit or loss (“FVTPL”)  
Financial assets at FVTPL are initially recognized at fair value with changes in fair value recorded through income. Cash and cash equivalents and short term investment are included in this category of financial assets.
- Held-to-maturity investments (“HTM”)  
HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs.
- Loans and receivables  
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are included in current assets, or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost, less any impairment. Amounts receivable and reclamation bonds are included in this category of financial assets.

# Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

Expressed in Canadian Dollars

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## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### *Financial instruments - continued*

- Available-for-sale financial assets

Available-for-sale (AFS) financial assets are non-derivatives that are either designated as available-for-sale or not classified in any of the other financial asset categories. Changes in the fair value of AFS financial assets are recognized as other comprehensive income and classified as a component of equity. AFS assets include investments in equities of other entities. Marketable securities and asset-backed commercial paper ("ABCP") are included in this category of financial assets.

Management assesses the carrying value of AFS financial assets at least annually and any impairment charges are also recognized in profit or loss. When financial assets classified as available-for-sale are sold, the accumulated fair value adjustments recognized in other comprehensive income are included in profit and loss.

- Effective interest method

The effective interest method calculates the amortized cost of a financial asset and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset, or, where appropriate, a shorter period, to the net carrying amount on initial recognition.

Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

- Impairment of financial assets

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at each period end. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial asset, the estimated future cash flows of the investment have been impacted.

Objective evidence of impairment could include the following:

- Significant financial difficulty of the issuer or counterparty;
- Default or delinquency in interest or principal payments; or
- It has become probable that the borrower will enter bankruptcy or financial reorganization.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate. The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. When a trade receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized; the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had impairment not been recognized.

# Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

Expressed in Canadian Dollars

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## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### *Financial instruments - continued*

#### *ii. Financial liabilities*

The Company classifies its financial liabilities in the following categories: Borrowings and other financial liabilities and derivative financial liabilities.

- **Borrowings and other financial liabilities**

Borrowings and other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the income statement over the period to maturity using the effective interest method. Borrowings and other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable and accrued liabilities and due to related parties.

- **Derivative Financial liabilities**

Derivative financial liabilities are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting period with changes in the fair value recognized in profit and loss.

### *Share-based payment transactions*

The Company grants stock options to buy common shares of the Company to directors, officers and employees. The board of directors grants such options for periods of up to five years, which vest immediately and are priced at the previous day's closing price.

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the vesting period of the options. The fair value is recognized as an expense with a corresponding increase in equity. The amount recognized as expense is adjusted to reflect the number of share options expected to vest.

Where the terms of a stock option is modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the stock-based compensation arrangement, or is otherwise beneficial to the employee as measured at the date of modification over the remaining vesting period.

Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received.

### *Income taxes*

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income or loss.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

# Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

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## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### *Income taxes - continued*

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries and associates to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

### *Share capital*

The Company records proceeds from share issuances net of issue costs and any tax effects. Common shares issued for consideration other than cash, are valued based on their market value at the date the common shares are issued.

### *Earnings (loss) per share*

The Company presents basic and diluted earnings/loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for calculating diluted earnings (loss) per share. Under this method the dilutive effect on earnings per share is calculated on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of various conversions and exercise of options and warrants that would be anti-dilutive.

### *Related party transactions*

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

### *Impairment of non-current assets*

Non-current assets are evaluated at least annually by management for indicators that carrying value is impaired and may not be recoverable. When indicators of impairment are present the recoverable amount of an asset is evaluated at the level of a cash generating unit (CGU), the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets, where the recoverable amount of a CGU is the greater of the CGU's fair value less costs to sell and its value in use. An impairment loss is recognized in income to the extent that the carrying amount exceeds the recoverable amount.

## Commerce Resources Corp.

Notes to the Financial Statements

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### 4. SIGNIFICANT ACCOUNTING POLICIES - continued

#### *Impairment of non-current assets - continued*

In calculating recoverable amount the Company uses discounted cash flow techniques to determine fair value when it is not possible to determine fair value either by quotes from an active market or a binding sales agreement. The determination of discounted cash flows is dependent on a number of factors, including future metal prices, the amount of reserves, the cost of bringing the project into production, production schedules, production costs, sustaining capital expenditures, and site closure, restoration and environmental rehabilitation costs. Additionally, the reviews take into account factors such as political, social and legal and environmental regulations. These factors may change due to changing economic conditions or the accuracy of certain assumptions and, hence, affect the recoverable amount. The Company uses its best efforts to fully understand all of the aforementioned to make an informed decision based upon historical and current facts surrounding the projects. Discounted cash flow techniques often require management to make estimates and assumptions concerning reserves and expected future production revenues and expenses.

#### *Decommissioning liabilities*

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. A pre-tax discount rate that reflects the time value of money and the risks specific to the liability are used to calculate the net present value of the expected future cash flows. These costs are charged to the statement of loss over the economic life of the related asset, through depreciation expense using either the unit-of-production or the straight-line method as appropriate. The related liability is progressively increased each period as the effect of discounting unwinds, creating an expense recognized in the statement of loss. The liability is assessed at each reporting date for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

#### New Accounting Pronouncement Adopted During the Year

Pronouncements that are not applicable to the Company have not been included in these financial statements.

#### ***IAS 24, Related Party Disclosures (“IAS 24”)***

The amendments to IAS 24, issued in December 2013, clarify that a management entity, or any member of a group of which it is a part, that provides key management services to a reporting entity, or its parent, is a related party of the reporting entity. The amendments also require an entity to disclose amounts incurred for key management personnel services provided by a separate management entity. This replaces the more detailed disclosure by category required for other key management personnel compensation. The amendments will only affect disclosure and are effective for annual periods beginning on or after July 1, 2014. The Company adopted the amendments on November 1, 2014. The disclosures required by these amendments have been included in Note 15.

# Commerce Resources Corp.

Notes to the Financial Statements

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## 4. SIGNIFICANT ACCOUNTING POLICIES - continued

### New Accounting Pronouncement Adopted During the Year – continued

#### ***Amendments to IAS 32 Financial instruments: Presentation***

The amendments to IAS 32 is effective for annual periods beginning on or after January 1, 2014. IAS 32 was amended to clarify that the right of offset must be available on the current date and cannot be contingent on a future date. The Company adopted the amendments on November 1, 2014 and there was no material impact on the Company's financial statements.

#### Future Accounting Pronouncements

Pronouncements that are not applicable to the Company have not been included in these financial statements

#### ***IFRS 9, Financial instruments ("IFRS 9")***

IFRS 9 was issued in November 2009 and subsequently amended as part of an ongoing project to replace IAS 39 Financial instruments: Recognition and measurement. The standard requires the classification of financial assets into two measurement categories based on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the instrument. The two categories are those measured at fair value and those measured at amortized cost. The classification and measurement of financial liabilities is primarily unchanged from IAS 39. However, for financial liabilities measured at fair value, changes in the fair value attributable to changes in an entity's "own credit risk" is now recognized in other comprehensive income instead of in profit or loss. This new standard will also impact disclosures provided under IFRS 7 Financial instruments: disclosures.

In November 2013, the IASB amended IFRS 9 for the significant changes to hedge accounting. In addition, an entity can now apply the "own credit requirement" in isolation without the need to change any other accounting for financial instruments. IFRS 9 applies to financial statements for annual periods beginning on or after January 1, 2018, with early adoption permitted.

#### ***IFRS 15, Revenue from Contracts with Customers ("IFRS 15")***

IFRS 15 was issued by IASB in May 2014 and will replace IAS 18, Revenue, IAS 11, Construction Contracts, and related interpretations on revenue. IFRS 15 establishes principles to address the nature, amount, timing and uncertainty of revenue and cash flows arising from an entity's contracts with customers. Companies can elect to use either a full or modified retrospective approach when adopting this standard and it is effective for annual periods beginning on or after January 1, 2017. The Company is in the process of analyzing IFRS 15 and determining the effect on its financial statements as a result of adopting this standard.

## 5. MARKETABLE SECURITIES

	Number Of Shares	Cost	Unrealized Gain (Loss)	Permanent Write-down	Fair Value October 31, 2015
Canadian International Minerals ("CIN")	150,000	\$ 185,000	\$ 1,500	\$ (183,500)	\$ 3,000
Zimtu Capital Corp. ("ZC")	122,320	159,385	(611)	(139,203)	19,571
Total	272,320	\$ 344,385	\$ 899	\$ (322,703)	\$ 22,571

	Number Of Shares	Cost	Unrealized Gain (Loss)	Permanent Write-down	Fair Value October 31, 2014
Ximen Mining Corp. ("XIM")	100,000	\$ 25,000	\$ 3,000	\$ -	\$ 28,000
Canadian International Minerals ("CIN")	150,000	185,000	(179,750)	-	5,250
Zimtu Capital Corp. ("ZC")	122,320	159,385	(110,457)	-	48,928
Total	372,320	\$ 369,385	\$ (287,207)	\$ -	\$ 82,178

## Commerce Resources Corp.

Notes to the Financial Statements

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### 5. MARKETABLE SECURITIES - continued

On July 31, 2013, the Company signed an agreement with CIN to purchase Treasure Mountain Property for 10,000,000 common shares of CIN. On October 9, 2013, these shares were distributed to the vendors at \$0.02 per share. As a result, the Company recorded a realized loss on the sale of CIN shares of \$1,000,000. During the year ended October 31, 2014, the shares of CIN were consolidated on a 10:1 basis.

On January 22, 2014, the Company acquired 100,000 units of Ximen Mining Corp. at a price of \$0.25 per share through a private placement. Each unit consists of one common share and one-half common share purchase warrant, exercisable for 18 months at a price of \$0.50 per share. The warrants are subject to an accelerated exercise provision in the event the Company's shares trade at or above \$0.55 per share for 10 consecutive trading days. During the year ended October 31, 2014, the warrants traded above \$0.55 for more than 10 days, and expired unexercised. During the year ended October 31, 2015, the Company sold their shares in Ximen in full for proceeds of \$6,102 and recognized a loss on disposition of \$18,897.

### 6. SHORT TERM INVESTMENTS

At October 31, 2015, the Company had two guaranteed investment certificate ("GIC's"), totaling \$184,500 (2014: \$4,534,500). Of the total, \$34,500 was issued on October 14, 2015, with an interest rate of prime less 2.00% and matures on October 13, 2016, and \$150,000 was issued on December 22, 2014, with an interest rate of 1.32% and matures on December 22, 2015.

### 7. MINING TAX RECEIVABLE

During the year ended October 31, 2015, the Company received a refund for the 2014 BC mining tax credits of \$21,104, made an adjustment to the 2014 accrual of \$6,573 to reflect the actual amount received, and accrued \$15,114 for the 2015 BC mining tax credit.

During the year ended October 31, 2014, the Company accrued BC mining tax credits of \$27,677 and Quebec mining tax credits of \$47,378. Also during the year, the Company received 1) a refund of \$1,119,958 for its 2012 BC mining tax credits, including interest income and an adjustment to mining tax credits of \$220,143; and 2) a refund of \$599,697 for its 2013 and 2012 QC mining tax credits and an adjustment to mining tax credits of \$430,468 resulting from the reassessment of 2009, 2010, 2011 and 2012.

	October 31, 2015			October 31, 2014		
	BC	Quebec	Total	BC	Quebec	Total
Balance, beginning of year	\$27,677	\$12,617	\$40,294	\$899,815	\$995,404	\$1,895,219
Refund received	(21,104)	-	(21,104)	(1,119,958)	(599,697)	(1,719,655)
Adjustments and interest	(6,573)	-	(6,573)	220,143	(430,468)	(210,325)
Tax credits accrual	15,114	-	15,114	27,677	47,378	75,055
Balance, end of year	\$ 15,114	\$ 12,617	\$ 27,731	\$ 27,677	\$ 12,617	\$ 40,294

## Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

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### 8. PREPAID EXPENSES

	October 31, 2015	October 31, 2014
<b>Current</b>		
Insurance	\$ 21,700	\$ 26,118
Held in trust	73,908	73,270
Deposits and advances	20,987	53,371
<b>Total prepaid expenses – current</b>	<b>116,595</b>	<b>152,759</b>
<b>Non-current</b>		
Deposits held for exploration	65,000	232,337
<b>Total prepaid expenses – non-current</b>	<b>\$ 65,000</b>	<b>\$ 232,337</b>

Non-current prepaid expenses are required deposits pursuant to the on-going long-term service agreements with the contractors performing the exploration related activities for the Company.

### 9. INVESTMENTS IN ASSET-BACKED COMMERCIAL PAPER

As at October 31, 2015, the Company held asset-backed commercial paper (“ABCP”) issued by a number of trusts with an original cost of \$770,463 (2014: \$779,728). On the dates the Company acquired these investments they were rated R1 (High) by Dominion Bond Rating Services (“DBRS”).

The Canadian market for ABCP suffered a liquidity disruption in mid-August 2007 following which a group of financial institutions and other parties agreed, pursuant to the Montreal Proposal, to the conversion of the ABCP into longer-term financial instruments (floating rate notes) with maturities corresponding to the underlying assets. On December 24, 2008, the Pan-Canadian Investors Committee, established to oversee the orderly restructuring of these instruments, announced that it had reached an agreement with all key stakeholders. Shortly thereafter, on January 21, 2009, the restructuring plan affecting the \$32 billion of third-party ABCP was fully implemented.

The Company received upon completion of the restructuring in January 2009 the following:

- \$7,350,000 of senior Master Asset Vehicle MAV II Class A-1 and A-2 Notes and subordinated Class B and Class C Notes as follows:
  - \$4,830,000 of Class A-1 Notes
  - \$1,950,000 of Class A-2 Notes
  - \$350,000 of Class B Notes
  - \$220,000 of Class C Notes

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 interest at the BA rate plus 20%. These notes have legal maturity dates in 2056 but the expected repayment date of the Class A-1 and A-2 notes is January 22, 2017. The senior notes (Class A-1 and Class A-2) have been rated “A” by DBRS while the subordinated notes (Class B and C) are unrated.

- \$780,000 of MAV II Ineligible Asset (“IA”) Notes

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.

## Commerce Resources Corp.

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### 9. INVESTMENTS IN ASSET-BACKED COMMERCIAL PAPER - continued

The valuation technique used by the Company to estimate the fair value of its investment in ABCP at October 31, 2015 and 2014, incorporates probability weighted discounted cash flows considering the best available public information regarding market conditions and other factors that a market participant would consider for such investments. The assumptions used in determining the estimated fair value reflect the details included in the Information Statement issued by the Pan-Canadian restructuring committee and the risks associated with the long-term floating rate notes.

The interest rates and maturities of the various long-term floating rate notes, discount rates and credit losses modeled are:

	<u>October 31, 2015</u>	<u>October 31, 2014</u>
Probability weighted average interest	74.10%	46.00%
Weighted average discount rate	15.00%	15.00%
Maturity of long-term floating rate notes	1 years to 23 years	2 years to 24 years
Credit losses	Rated notes: Nil to 30% Unrated notes: 20% to 100%	Rated notes: Nil to 30% Unrated notes: 20% to 100%

If these assumptions were to change, the fair value of ABCP could change significantly.

During the year ended October 31, 2015, the Company received payments from settlement of \$9,745 (2014: \$10,821) and recognized a gain on sale of ABCP of \$9,204 (2014: \$10,006). As at October 31, 2015, the fair value of the ABCP as determined above was \$329,278 (2014: \$292,482) and the Company recorded an unrealized gain of \$37,337 (2014: \$63,681) from this instrument.

Reconciliation of level 3 fair value measurements of ABCP is as follows:

October 31, 2013	\$	229,616
Settlements		(815)
Unrealized gains in other comprehensive income		63,681
October 31, 2014		292,482
Settlements		(541)
Unrealized gains in other comprehensive income		37,337
October 31, 2015	\$	329,278

## Commerce Resources Corp.

Notes to the Financial Statements

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### 10. EQUIPMENT

	<b>Field Equipment</b>	<b>Field Office Building</b>	<b>Leasehold Improvements</b>	<b>Land</b>	<b>Total</b>
<b>Costs</b>					
<b>October 31, 2015 and 2014</b>	<b>\$ 316,931</b>	<b>\$ 303,748</b>	<b>\$ 255,796</b>	<b>\$ 120,282</b>	<b>\$ 996,757</b>
<b>Accumulated Amortization</b>					
October 31, 2013	\$ 306,297	57,383	40,856	-	404,536
Additions	5,981	12,351	21,316	-	39,648
October 31, 2014	312,278	69,734	62,172	-	444,184
Additions	4,653	11,759	21,316	-	37,728
<b>October 31, 2015</b>	<b>\$ 316,931</b>	<b>\$ 81,493</b>	<b>\$ 83,488</b>	<b>\$ -</b>	<b>\$ 481,912</b>
<b>Net Book Value</b>					
October 31, 2014	\$ 4,653	\$ 234,014	\$ 193,624	\$ 120,282	\$ 552,573
<b>October 31, 2015</b>	<b>\$ -</b>	<b>\$ 222,255</b>	<b>\$ 172,308</b>	<b>\$ 120,282</b>	<b>\$ 514,845</b>

### 11. EXPLORATION AND EVALUATION ASSETS

The following is a description of the Company's most significant property interests and related spending commitments (see Schedule I for detail breakdown):

#### Blue River Claims – (formerly known as the Upper Fir, Verity and Fir Claims)

The Company has a 100% interest in its Blue River claims, located in the Blue River region of the Kamloops Mining District of B.C., Canada, all of which were acquired by staking.

#### Eldor Claims

The Company acquired, by staking and a purchase agreement, a 100% interest in the Eldor Carbonatite Complex, located in the Labrador Trough area of Quebec, Canada. During the year ended October 31, 2007, the Company purchased 8 mineral claims from Virginia Mines Inc. ("Virginia Mines"), which cover a portion of the Eldor Carbonatite. These claims are adjacent to the approximately 88 claims staked by the Company.

Virginia Mines retains a 1% net smelter royalty on the 8 claims purchased from them. As well, 5 of the 8 claims are subject to an underlying 5% net profit royalty, which can be purchased for \$500,000.

During the year ended October 31, 2015, the Company determined that they were allowing 167 claims in the outer regions of the Eldor Property to lapse and have impaired the property accordingly and recorded an impairment loss of \$1,447,744.

#### Other Claims – British Columbia, Canada

Other claims consist of mineral claims located in B.C., Canada known as the Alan Parson, Carbo claims, and Treasure Mountain Property.

By September 23, 2011, Canadian International minerals Inc. ("CIN") acquired 100% interest in the Carbo Property. The Company will retain its 2% NSR royalty on the property.

On July 31, 2013, the Company entered into a Mineral Property Purchase Agreement ("Agreement") with Canadian International Minerals Inc. ("CIN") and Canadian Strategic Metals Corp. ("CSM") (CIN and CSM together called the "Vendors") to purchase a 100% interest in and to the 24 mineral claims in the Similkameen and New Westminster Mining Districts of British Columbia, known as the Treasure Mountain Property. In consideration, on October 9, 2013, the Company paid a total of 10,000,000 shares of CIN at \$0.02 per share.

## Commerce Resources Corp.

Notes to the Financial Statements

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### 11. EXPLORATION AND EVALUATION ASSETS - continued

#### Other Claims – British Columbia, Canada - continued

On March 15, 2014, the Company entered into an agreement with Ximen Mining Corp. (“Ximen”) whereby Ximen can earn a 100%-interest in and to the Treasure Mountain Property located in British Columbia, Canada. The Company received cash of \$125,000 during the year ended October 31, 2014 to complete the transaction.

#### Other Claims – Quebec, Canada

During the year ended October 31, 2013, the Company acquired, by staking, a 100% interest in the Lac Dupoisson Property, consisting of 57 claims, covering an area of 2,688 ha in the Labrador Trough. The 57 claims were lapsed in December 2014 and related costs of \$9,081 were written off during the year ended October 31, 2015.

### 12. SHARE CAPITAL

- a) Authorized: Unlimited common shares with no par value.
- b) Issued and outstanding: The total issued and outstanding shares of the Company are 216,462,364 as at October 31, 2015 (2014: 201,937,364).

#### **During the year ended October 31, 2015:**

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. The fair value of the shares at the date of issuance was \$0.185 where the exercise price is greater than the market price. The fair value of the Warrant is deemed to be \$0.03 based on the residual method. As a result, the Company allocated \$37,500 to reserves from the issuance of Units and \$781,625 to liability for flow through shares from the issuance of FT Shares, respectively. All the securities issuable will be subject to a four-month hold period from the date of closing expiring April 20, 2015.

Secutor Capital Management Corporation acted as exclusive finder in connection with this private placement and was paid a cash commission of \$217,500 plus expenses, and issued 725,000 finders’ warrants (the “Finders Warrant”) to acquire additional common shares of the Company (“Finders’ Warrant Shares”) exercisable at \$0.24 per Finders’ Warrant Share until June 19, 2016. The Finders Warrants were valued at fair value of \$63,326. The fair value of these Finders Warrants was \$0.09 per share, where the exercise price is greater than the market price at the date of grant and the fair value of each compensation option is calculated using the Black-Scholes pricing model assuming a risk-free interest rate of 1.02%, a dividend yield of nil, an expected volatility of 118.02% and an average expected life of 1.5 years. The residual \$16,422 of share issuance costs includes legal and filing expenses related directly to the private placement.

## Commerce Resources Corp.

Notes to the Financial Statements

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### 12. SHARE CAPITAL – continued

b) Issued and outstanding: – continued

#### During the year ended October 31, 2014:

During the year ended October 31, 2014, 2,045,000 stock options priced at \$0.15 and 620,520 warrants priced at \$0.25 were exercised for gross proceeds of \$306,750 and \$155,130 respectively. A total of \$714,358 was reversed out of reserves and credited to share capital in relation to the option and warrant exercises.

On October 3, 2014, the Company closed a non-brokered private placement of 16,041,500 flow-through shares (“FT Shares”) at a price of \$0.25 per FT Share and 4,283,550 units (“Units”) at \$0.24 per Unit for gross proceeds of \$5,038,427. Each Unit consists of one non flow-through common share and one non flow-through Warrant. Each whole share purchase warrant (a “Warrant”) is exercisable into one common share of the Company expiring on April 3, 2016 at a price of \$0.30 per Warrant share. All the securities issuable will be subject to a four-month hold period from the date of closing. The fair value of the share at the date of issuance is \$0.21 where the exercise price is greater than the market price. The fair value of the Warrant is deemed to be \$0.03 based on the residual method. As a result, the Company allocated \$641,660 to liability for flow through shares from the issuance of FT Shares and allocated \$128,507 to reserves from the issuance of Units, respectively. The Company has paid Secutor Capital Management Corporation (the “Agent”) a cash commission of \$352,690, plus expenses. In addition, the Company granted a total of 1,016,252 finders’ warrants to acquire common shares of the Company exercisable at \$0.24 per share expiring on April 3, 2016.

The finders’ warrants were valued at fair value of \$109,605. The fair value of these finders’ warrants was \$0.11 per share, where the exercise price is greater than the market price at the date of grant and the fair value of each finders’ warrant is calculated using the Black-Scholes pricing model assuming a risk-free interest rate of 1.13%, a dividend yield of nil, an expected volatility of 120.79% and an average expected life of 1.5 years. The residual \$103,592 of share issuance costs constitutes of legal and filing expenses related directly to the private placement.

On October 10, 2014, the Company completed the second tranche of its October 3, 2014 financing, issuing 525,000 units (“Units”) at \$0.24 per Unit for gross proceeds of \$126,000. Each Unit consists of one non flow-through common share and one non flow-through Warrant. Each whole share purchase warrant (a “Warrant”) is exercisable into one common share of the Company expiring on April 10, 2016 at a price of \$0.30 per Warrant share. The fair value of the share at the date of issuance is \$0.21 where the exercise price is greater than the market price. The fair value of the Warrant is deemed to be \$0.03 based on the residual method. As a result, the Company allocated \$15,750 to reserves from the issuance of Units.

The Company granted a total of 26,250 finders’ warrants to acquire common shares of the Company exercisable at \$0.24 per share expiring on April 10, 2016. The finders’ warrants were valued at fair value of \$2,355. The fair value of these finders’ warrants was \$0.09 per share, where the exercise price is greater than the market price at the date of grant and the fair value of each compensation option is calculated using the Black-Scholes pricing model assuming a risk-free interest rate of 1.05%, a dividend yield of nil, an expected volatility of 121.07% and an average expected life of 1.5 years.

On March 14, 2014, the Company closed a private placement of 8,425,652 flow-through units (“FT Units”) at a price of \$0.23 per FT Unit and 3,012,500 units (“Units”) at \$0.20 per Unit for gross proceeds of \$2,540,400. Each FT Unit consists of one flow-through common share and one half of one non flow-through common share purchase warrant in the capital of the Company. Each whole share purchase warrant (a “Warrant”) is exercisable into one common share of the Company expiring on September 14, 2015 at a price of \$0.35 per common share.

## Commerce Resources Corp.

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### 12. SHARE CAPITAL – continued

b) Issued and outstanding: – continued

**During the year ended October 31, 2014:** - continued

Each Unit consists of one common share and one half of one Warrant. All the securities issuable will be subject to a four-month hold period from the date of closing. The fair value of the share at the date of issuance is \$0.135 where the exercise price is greater than the market price. The fair value of the Warrant is deemed to be \$0.13 based on the residual method. As a result, the Company allocated \$547,667 to reserves and \$252,770 to liability for flow through shares from the issuance of FT Units and allocated \$195,813 to reserves from the issuance of Units, respectively. The Company paid Secutor Capital Management Corporation (the “Agent”) a cash commission of \$174,228, plus expenses. In addition, the Company granted a total of 571,908 compensation options to acquire common shares of the Company exercisable at \$0.35 per share expiring on September 14, 2015. The compensation options were valued at fair value of \$22,719. The fair value of these compensation options was \$0.04 per share, where the exercise price is greater than the market price at the date of grant and the fair value of each compensation option is calculated using the Black-Scholes pricing model assuming a risk-free interest rate of 1.01%, a dividend yield of nil, an expected volatility of 114.36% and an average expected life of 1.5 years. The residual \$60,119 of share issuance costs constitutes of legal and filing expenses related directly to the private placement.

c) Share purchase warrants:

The following is a summary of share purchase warrant transactions for the years ended October 31, 2015 and 2014:

	2015		2014	
	Number of Warrants	Weighted Average Exercise Price	Number of Warrants	Weighted Average Exercise Price
Balance, beginning of year	10,527,634	\$ 0.33	9,688,611	\$ 0.32
Issued	1,250,000	0.30	10,527,634	0.33
Exercised	-	-	(620,520)	0.25
Expired	(5,719,084)	0.35	(9,068,091)	0.32
Balance, end of year	6,058,550	\$ 0.30	10,527,634	\$ 0.33

The following share purchase warrants were outstanding and exercisable as at October 31, 2015 and 2014:

Expiry Date	Contractual Life (Years)	Weighted Average Exercise Price	2015 Number of Warrants	2014 Number of Warrants
September 14, 2015	-	\$0.35	-	5,719,084
April 3, 2016	0.42	\$0.30	4,283,550	4,283,550
April 10, 2016	0.44	\$0.30	525,000	525,000
June 19, 2016	0.64	\$0.30	1,250,000	-
Total Outstanding and Exercisable	0.47	\$0.32	6,058,550	10,527,634

## Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

Expressed in Canadian Dollars

### 12. SHARE CAPITAL – continued

d) Agents' warrants:

The following agents' warrants were outstanding and exercisable as at October 31, 2015 and 2014:

<u>Expiry Date</u>	<u>Weighted Average Remaining Contractual Life (Years)</u>	<u>Exercise Price</u>	<u>2015 Number of Agents' Warrants</u>	<u>2014 Number of Agents' Warrants</u>
April 3, 2016	0.42	\$0.24	1,016,252	1,016,252
April 10, 2016	0.44	\$0.24	26,250	26,250
June 19, 2016	0.64	\$0.24	725,000	-
<b>Total Outstanding and Exercisable</b>	<b>0.51</b>	<b>\$0.24</b>	<b>1,767,502</b>	<b>1,042,502</b>

The Company applies the fair value method in accounting for its agents' warrants using the Black-Scholes pricing model. During the year ended October 31, 2015, the Company recorded \$63,326 (2014: \$111,960) in share issuance costs with the issuance of 725,000 (2014: 1,042,502) agents' warrants.

The amounts were determined using Black-Scholes option pricing model with the following assumptions:

	<u>October 31, 2015</u>	<u>October 31, 2014</u>
Expected dividend yield	Nil	Nil
Expected volatility	118.0%	121%
Risk free rate	1.02%	1.05-1.13%
Expected terms in years	1.5 years	1.5 years

### 13. SHARE-BASED PAYMENTS

The Company has a stock option plan for officers, directors, employees and consultants. Options are granted with an exercise price determined by the Board of Directors, which may not be less than 25% of the Company's stock price on the date of the grant. Options granted to directors, employees and consultants other than consultants engaged in investor relations activities will vest immediately. However for options granted to employees and consultants engaged in investor relations activities will vest in stages over a minimum period of 12 months with no more than one-quarter of the options vesting in any three month period.

## Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

Expressed in Canadian Dollars

### 13. SHARE-BASED PAYMENTS - continued

The following is a summary of option transactions under the Company's stock option plan for the years ended October 31, 2015 and 2014:

	2015		2014	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Balance, beginning of year	7,971,908	\$ 0.39	12,005,678	\$ 0.33
Granted	-	-	571,908	0.35
Exercised	-	-	(2,045,000)	0.15
Expired/Cancelled	(1,056,908)	0.45	(2,560,678)	0.24
Balance, end of year	6,915,000	\$ 0.38	7,971,908	\$ 0.39

The following stock options were outstanding and exercisable as at October 31, 2015:

Expiry Date	Revised Exercise Price	Original Exercise Price	Number of Shares	Contractual Life (Years)
November 17, 2015	\$0.15	\$0.55	150,000*	0.05
November 17, 2015	N/A	\$0.55	675,000*	0.05
February 28, 2016	\$0.15	\$0.81	260,000	0.33
February 28, 2016	N/A	\$0.81	2,000,000	0.33
February 8, 2018	N/A	\$0.15	3,730,000	2.28
May 15, 2018	N/A	\$0.10	100,000	2.54
Total Outstanding and Exercisable			6,915,000	1.38

\* See Note 20.

The Company applies the fair value method in accounting for its stock options granted to directors, officers and employees by using the Black-Scholes pricing model. During the year ended October 31, 2015, the Company recorded \$nil (2014: \$nil) in share-based payments expense. During the year ended October 31, 2015, the Company recorded \$nil (2014: \$22,719) in share issuance costs with the issuance of nil (2014: 571,908) agents' options.

### 14. 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. On May 1, 2013, the Company extended the agreement for a period of 12 months, with a revised rate of remuneration of \$49,180 per month. On May 1, 2014, this amended agreement was extended for an additional 12 months. Effective September 2014, the monthly fee increased to \$53,810. On May 1, 2015, the agreement was extended seven months, expiring on November 30, 2015. See Note 20.

## Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

Expressed in Canadian Dollars

### 15. RELATED PARTY TRANSACTIONS

During the years ended October 31, 2015 and 2014, the Company incurred the following expenses to officers or directors of the Company or companies with common directors:

	Year ended October 31,	
	2015	2014
	\$	\$
<b>Key management compensation*</b>		
Consulting fees	88,112	97,628
Geological services	2,928,689	1,249,709
Administrative fees	645,720	599,420
Advertising and promotion	16,756	71,500
Total	3,679,277	2,018,257
	2015	2014
	\$	\$
<b>Amounts due to (from) related parties</b>		
Dahrouge Geological Consulting (a)	694,198	144,120
Nimbus Resource Management (b)	2,016	3,360
Axel Hoppe, Director	21,306	19,877
Zimtu Capital Corp. (c)	61,470	(29,281)
Due to related parties – Total	778,990	138,076

- (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.

### 16. 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.

# Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

Expressed in Canadian Dollars

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## 16. FINANCIAL INSTRUMENTS – continued

### 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 October 31, 2015, cash and cash equivalents of \$5,342 (2014: \$1,286,584) consisted of cash balances of \$5,342 (2014: \$944,493) with Canadian chartered banks and \$nil (2014: \$342,091) in money market funds. As at October 31, 2015, the Company also held short term investments of \$184,500 (2014: \$4,534,500) in GIC's at a Canadian chartered bank and asset-backed commercial paper fair valued at \$329,278 (2014: \$292,482).

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.

# Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

Expressed in Canadian Dollars

## 16. FINANCIAL INSTRUMENTS – continued

### 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 \$3,000 (2014: \$6,000) 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 year ended October 31, 2015 is \$3,000 (2014: \$6,000).

### 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 October 31, 2015 and 2014:

	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

  

	As at October 31, 2014		
	Level 1	Level 2	Level 3
Cash and cash equivalents	\$ 1,286,584	\$ -	\$ -
Short term investments	4,534,500	-	-
Marketable securities	82,178	-	-
Asset-backed commercial paper	-	-	292,482
	\$ 5,903,262	\$ -	\$ 292,482

## Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

Expressed in Canadian Dollars

### 16. FINANCIAL INSTRUMENTS - continued

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 October 31, 2015 and 2014:

	October 31, 2015			October 31, 2014		
	Face value	Fair value variances	Fair value	Face value	Fair value variances	Fair value
<b>MAV II Notes</b>	\$	\$	\$	\$	\$	\$
Class B	353,772	(57,888)	295,884	353,772	(89,885)	263,887
Class C	233,913	(215,167)	18,746	233,913	(218,210)	15,703
	587,685	(273,055)	314,630	587,685	(308,095)	279,590
<b>Ineligible Asset</b>						
Tracking Notes	182,778	(168,130)	14,648	192,043	(179,151)	12,892
	770,463	(441,185)	329,278	779,728	(487,246)	292,482

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 un-levered 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 October 31, 2015, 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, 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, October 31, 2015. 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 October 31, 2015, the Company’s shareholders’ equity was \$57,244,158 (2014: \$56,915,377). 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.

## Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

Expressed in Canadian Dollars

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### 16. FINANCIAL INSTRUMENTS – continued

#### e) Capital Management – continued

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.

### 17. NON-CASH TRANSACTIONS

The following transactions have been excluded from the statement of cash flows:

#### During the year ended October 31, 2015:

- Exploration and evaluation assets of \$1,219,955 were included in accounts payable and \$694,198 were included in due to related parties at October 31, 2015.
- Amortization of \$37,728 relating to equipment was included in exploration and evaluation assets.
- 725,000 agents' warrants valued at \$63,326 granted to the Agents were included in share issuance costs.

#### During the year ended October 31, 2014:

- Exploration and evaluation assets of \$184,660 were included in accounts payable and \$145,720 were included in due to related parties at October 31, 2014.
- Amortization of \$39,648 relating to equipment was included in exploration and evaluation assets.
- 571,908 options valued at \$22,719 and 1,042,502 agents' warrants valued at \$111,960 granted to the Agents were included in share issuance costs.

### 18. LIABILITY AND INCOME TAX EFFECT ON FLOW-THROUGH SHARES

Funds raised through the issuance of flow-through shares are required to be expended on qualified Canadian mineral exploration expenditures, as defined pursuant to Canadian income tax legislation. The flow-through gross proceeds, less the qualified expenditures made to date, represent the funds received from flow-through share issuances that have not been spent.

On December 12, 2012, the Company issued 13,775,554 units on a flow-through basis at \$0.18 per share (see Note 12b) for proceeds of \$2,479,600, and recognized a liability on flow-through shares of \$238,768. As October 31, 2013, the Company has incurred \$2,184,169 of qualified expenditures resulting in the reversal of liability on flow-through shares and recorded the related net deferred tax effect of \$210,320. During the year ended October 31, 2014, the Company incurred additional \$295,431 of qualified expenditures resulting in the reversal of liability on flow-through shares and recorded the related net deferred tax effect of \$28,448. All proceeds have been fully spent in fiscal 2014.

On March 14, 2014, the Company issued 8,425,652 units on a flow-through basis at \$0.23 per share (see Note 12b) for proceeds of \$1,937,900, and recognized a liability on flow-through shares of \$252,770. At October 31, 2014, the Company has incurred \$1,464,048 of qualified expenditures resulting in the reversal of liability on flow-through shares and recorded the related net deferred tax effect of \$190,963. As at October 31, 2015, the amount of flow-through proceeds remaining to be spent is \$nil (2014 - \$473,852) and the liability for flow-through shares related to this private placement is \$nil (2014 - \$61,807). All proceeds have been fully spent and renounced as at December 31, 2015.

## Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

Expressed in Canadian Dollars

### 18. LIABILITY AND INCOME TAX EFFECT ON FLOW-THROUGH SHARES - continued

On October 3, 2014, the Company issued 16,041,500 shares on a flow-through basis at \$0.25 per share (see Note 12b) for gross proceeds of \$4,010,375, and recognized a liability on flow-through shares of \$641,660. As at October 31, 2015, the amount of flow-through proceeds remaining to be spent is \$nil (2014 - \$4,010,375) and the liability for flow-through shares related to this private placement is \$nil (2014 - \$641,660).

On December 22, 2014, the Company issued 12,025,000 shares on a flow-through basis at \$0.25 per share (see Note 12b) for gross proceeds of \$3,006,250, and recognized a liability on flow-through shares of \$781,625. At October 31, 2015, the Company has incurred \$1,667,710 of qualified expenditures resulting in the reversal of liability on flow-through shares and recorded the related net deferred tax effect of \$448,016. As at October 31, 2015, the amount of flow-through proceeds remaining to be spent is \$1,338,540 and the liability for flow-through shares related to this private placement is \$333,609. See Note 20.

	Issued on December 12, 2012	Issued on March 14, 2014	Issued on October 3, 2014	Issued on December 22, 2014	Total
<b>Balance, November 1, 2013</b>	\$ 28,448	\$ -	\$ -	\$ -	\$ 28,448
Liability incurred on flow-through shares issued	-	252,770	641,660	-	894,430
Settlement of flow-through share liability on incurring expenses	(28,448)	(190,963)	-	-	(219,411)
<b>Balance, October 31, 2014</b>	-	61,807	641,660	-	703,467
Liability incurred on flow-through shares issued	-	-	-	781,625	781,625
Settlement of flow-through share liability on incurring expenses	-	(61,807)	(641,660)	(448,016)	(1,151,483)
<b>Balance, October 31, 2015</b>	\$ -	\$ -	\$ -	\$ 333,609	\$ 333,609

## Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

Expressed in Canadian Dollars

### 19. CORPORATE INCOME TAXES

The following table reconciles the expected income taxes recovery at the Canadian statutory income tax rates to the amounts recognized in the statements of operations and comprehensive loss for the years ended October 31, 2015 and 2014:

	2015	2014
Statutory tax rate	26%	26%
Loss before income taxes	\$ (3,638,838)	\$ (1,675,162)
Expected income tax expense	946,098	435,542
Differences due to recognition of items for tax purposes:		
Flow-through shares	(462,432)	(238,054)
Change in estimates	(35,756)	(318,649)
Non-deductible items	(13,544)	(5,071)
Gain on disposal of assets and other income	89,987	231,553
Other comprehensive income item	(355)	(6,723)
Non-refundable ITC	627,840	201,921
Expiry of non-capital losses	(87,472)	(77,061)
Change in deferred tax asset not recognized	87,117	(4,047)
Deferred tax recovery	\$ 1,151,483	\$ 219,411

Deferred taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes. Deferred tax assets (liabilities) at October 31, 2015 and 2014 are comprised of the following:

	2015	2014
Non-capital losses carry forwards	\$ 7,039,319	\$ 6,198,890
Exploration and evaluation assets	(4,767,837)	(3,460,292)
Equipment	98,473	88,664
Marketable securities and asset-backed commercial paper	112,192	113,743
Non-refundable ITC	3,844,781	3,401,769
Capital losses	337,909	336,754
Financing costs	232,612	305,039
	6,897,449	6,984,567
Deferred tax asset not recognized	(6,897,449)	(6,984,567)
Net deferred tax asset (liability)	\$ -	\$ -

## Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

Expressed in Canadian Dollars

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### 19. CORPORATE INCOME TAXES - continued

The Company has non-operating loss carryforwards of approximately \$26,777,916 (2014: \$23,841,883) which may be carried forward to apply against future year income tax for Canadian income tax purposes, subject to the final determination by taxation authorities, expiring in the following years:

2016	\$	730,237
2027		1,988,822
2028		2,663,481
2029		2,687,859
2030		3,710,348
2031		3,709,224
2032		2,725,931
2033		3,190,975
2034		2,661,069
2034		2,709,970
		<hr/>
	\$	26,777,916

In addition, the Company has capital loss of \$2,599,304, which may be carried forward indefinitely and applied to reduce future capital gains.

The deferred tax assets have not been recognized because at this stage of the Company's development, it is not determinable that future taxable profit will be available against which the Company can utilize such deferred tax assets.

### 20. SUBSEQUENT EVENTS

- a) On February 25, 2016, the Company filed a short form prospectus with the securities regulatory authorities in the Provinces of British Columbia, Alberta and Ontario in connection with a best efforts offering of units (the "Units") of the Company at a price of \$0.10 per Unit for gross proceeds of a minimum of \$1 million and up to a maximum of \$3 million (the "Public Offering"). The Public Offering is being conducted by Secutor Capital Management Corporation (the "Agent"). The Company has granted the Agent an over-allotment option to sell up to an additional 15% of the Public Offering on the same terms and conditions, exercisable at any time following the closing of the Public Offering for a period of 30 days.

Each Unit will consist of one common share of the Company and one common share purchase warrant (each, a "Warrant") with each Warrant entitling the holder to acquire an additional common share of Commerce (a "Warrant Share") at a price of \$0.12 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 Public Offering.

Concurrently with the closing of the Public Offering, the Agent has also agreed to offer up to 13,636,364 flow-through common shares of the Company ("FT Shares") on a brokered private placement basis at a price of \$0.11 per FT Share (the "Concurrent Private Placement") for gross proceeds of up to \$1,500,000. The prospectus does not qualify the distribution of the FT Shares issued pursuant to the Concurrent Private Placement. The FT Shares purchased pursuant to the Concurrent Private Placement will be subject to a statutory hold period.

The Company intends to use the net proceeds from the Public Offering and the Concurrent Private Placement to advance the Company's Ashram Rare Earth Element Deposit in Quebec and for general working capital purposes.

## Commerce Resources Corp.

Notes to the Financial Statements

October 31, 2015 and 2014

Expressed in Canadian Dollars

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### 20. SUBSEQUENT EVENTS - continued

The Company has agreed to (i) pay the Agent a cash commission (the “Agent’s Fee”) equal to 7% of the gross proceeds of the Public Offering and the Concurrent Private Placement and a reduced cash commission of 2% on purchasers, if any, whose name appear on the list of purchasers to the Public Offering and the Concurrent Private Placement introduced to the Agent by insiders of the Company (the “President’s List”), and (ii) issue to the Agent share purchase warrants (each, an “Agent’s Warrant”) with each Agent’s Warrant entitling the Agent to acquire that number of common shares in the capital of Commerce equal to 7% of the number of Units and FT Shares sold under the Public Offering and Concurrent Private Placement, respectively, and a reduced number Agent’s Warrants equal to 2% on purchasers, if any, whose name appear on the President’s List.

The Public Offering and Concurrent Private Placement is subject to certain conditions including, but not limited to, the execution of a definitive agency agreement with the Agent and the receipt of all necessary approvals, including the approval of the TSX Venture Exchange and the applicable securities regulatory authorities.

- b) On November 17, 2015, 150,000 stock options priced at \$0.15 and 675,000 stock options priced at \$0.55 expired unexercised.
- c) On December 1, 2015, the Company renewed its Management Services Agreement with Zimtu for an additional 12 months.
- d) 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 \$116,792.50 and issued 1,061,750 warrants exercisable at \$0.11 per warrant share for a period of two years to various finders. All the securities issuable will be subject to a four-month hold period from the date of closing. The proceeds of the private placement will be used in qualified exploration expenditures at the Company’s mineral properties in Quebec.
- e) As at December 31, 2015, the Company had unfulfilled CEE obligations of \$1,262,811 as a result of unspent flow-through proceeds. The flow-through proceeds were renounced under the Look-back Rule on December 31, 2014. As the Company did not fulfill the expenditure obligation, the Company estimated that it will incur Part XII.6 tax and related penalties and interest of \$148,000 on the unfulfilled commitments. Furthermore, the Company may also have to indemnify shareholders for taxes and penalties related to the unspent portion of the commitment. An estimated amount totaling \$552,000 is calculated based upon a combined tax rate of 43.7% of unspent flow-through funds raised. The outcome of the amount of actual claims and penalties, if any, is contingent on assessments by the Canada Revenue Agency.

**Commerce Resources Corp.**  
Schedule of Resource Properties  
For the year ended October 31, 2015  
Expressed in Canadian dollars

Schedule I

	Blue River Claims	Eldor Claims	Other Claims	Totals
<b>Acquisition costs</b>				
Balance, beginning of period	\$ 201,602	\$ 1,270,237	\$ 211,580	\$ 1,683,419
Staking	-	321	-	321
Balance, end of the period	201,602	1,270,558	211,580	1,683,740
<b>Deferred exploration and development costs – Note 11</b>				
Balance, beginning of period	27,518,172	21,773,706	(196,611)	49,095,267
Amortization – field equipment and office	13,849	2,562	-	16,411
Assays and analytical	-	399,405	-	399,405
Community	455	-	-	455
Drilling	-	681,566	-	681,566
Engineering	2,638	321,011	-	323,649
Environmental and permitting	4,216	388	-	4,640
Field equipment rental	20,716	306,167	-	326,883
Field supplies	-	366,043	-	366,043
Food and accommodation	12,744	123,409	-	136,153
Fuel	-	230,372	-	230,372
Geology, mapping and drafting	2,388	2,164,804	-	2,167,192
Geophysics	-	11,094	-	11,094
Insurance	7,042	18,668	-	25,710
Metallurgy	-	2,722,552	-	2,722,552
Other	38,856	1,401	-	40,257
Project management	16,792	-	-	16,792
Road and site preparation	4,106	-	-	4,106
Travel and transport	-	1,533,300	-	1,533,300
	123,802	8,882,742	-	9,006,544
Mining tax credits	(8,541)	-	-	(8,541)
Impairment	-	(1,438,663)	(9,081)	(1,447,744)
Balance, end of year	27,633,433	29,217,795	(205,692)	56,645,526
Total balance, end of year	\$ 27,835,035	\$ 30,488,343	\$ 5,888	\$ 58,329,266

**Commerce Resources Corp.**  
Schedule of Resource Properties  
For the year ended October 31, 2014  
Expressed in Canadian dollars

Schedule I  
Continued

	Blue River Claims	Eldor Claims	Other Claims	Totals
<b>Acquisition costs</b>				
Balance, beginning of year	\$ 201,602	\$ 1,270,237	\$ 210,166	\$ 1,682,005
Staking	-	-	1,414	1,414
Balance, end of the year	201,602	1,270,237	211,580	1,683,419
<b>Deferred exploration and development costs – Note 11</b>				
Balance, beginning of year	27,599,172	18,910,224	8,633	46,518,029
Amortization – field equipment and office	15,038	3,294	-	18,332
Assays and analytical	32	283,012	-	283,044
Consulting	-	4,888	-	4,888
Drilling	-	196,634	-	196,634
Engineering	552	48,646	-	49,198
Environmental and permitting	4,564	48,549	-	53,113
Field equipment rental	21,911	183,368	-	205,279
Field supplies	69	75,347	-	75,416
Fuel	-	43,417	-	43,417
Food and accommodation	9,884	30,250	-	40,134
Geology, mapping and drafting	25,252	756,522	-	781,774
Insurance	8,089	12,133	-	20,222
Metallurgy	26,250	533,569	-	559,819
Other	18,230	12,249	-	30,479
Project management	25,380	-	-	25,380
Road and site preparation	2,638	-	-	2,638
Travel and transport	50	286,513	-	286,563
	157,939	2,518,391	-	2,676,330
Proceeds received for sale of property	-	-	(125,000)	(125,000)
Loss on sale of property	-	-	(80,244)	(80,244)
Mining tax credits – current year adjustment	(27,677)	(47,378)	-	(75,055)
Mining tax credits – prior year adjustments	(211,262)	392,469	-	181,207
Balance, end of year	27,518,172	21,773,706	(196,611)	49,095,267
Total balance, end of year	\$ 27,719,774	\$ 23,043,943	\$ 14,969	\$ 50,778,686