



**XMET INC.**

**MANAGEMENT'S DISCUSSION AND ANALYSIS OF  
FINANCIAL CONDITION AND RESULTS OF OPERATIONS**

**For the Nine Month Period Ended September 30, 2013**

*(Expressed in Canadian Dollars unless otherwise indicated)*

Dated: November 29, 2013

## **INTRODUCTION**

The following is Management's Discussion and Analysis ("MD&A) of the financial condition and results of operations of Xmet Inc. ("Xmet", the "Corporation", or the "Company") to enable a reader to assess the financial condition and results of operations of the Company for the three and nine month periods ended September 30, 2013. This MD&A has been prepared as at November 29<sup>th</sup> 2013 unless otherwise indicated. This MD&A should be read in conjunction with the unaudited Condensed Consolidated Interim Financial Statements ("Financial Statements") and Related Notes for the three and nine month periods ended September 30, 2013, which have been prepared in and are in accordance with the International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). All monies are expressed in Canadian dollars unless otherwise indicated.

The Company's head office and principal business address is Suite 2500, 120 Adelaide Street West, Toronto, Ontario M5H 1T1. Additional information relevant to the activities of the Company, including press releases has been filed electronically through the System for Electronic Document Analysis and Retrieval ("SEDAR") – [www.sedar.com](http://www.sedar.com). The Company is a reporting issuer in the provinces of British Columbia, Alberta and Ontario and trades on the TSX Venture Exchange, symbol XME-V.

## **MANAGEMENT'S RESPONSIBILITIES FOR FINANCIAL REPORTING AND CONTROLS**

The Financial Statements have been prepared by management in accordance with International Financial Reporting Standards appropriate in the circumstances and have been approved by the Company's board of directors (the "Board"). The integrity and objectivity of these Financial Statements are the responsibility of management. In addition, management is responsible for ensuring that the information contained in the MD&A is consistent where appropriate, with the information contained in the Financial Statements.

In support of this responsibility, the Company maintains internal and administrative controls to provide reasonable assurance that the financial information is relevant, reliable and accurate and that the Company's assets are properly accounted for and adequately safeguarded. The Financial Statements may contain certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis to ensure that the Financial Statements are presented fairly in all material respects.

The Board is responsible for ensuring that management fulfills its responsibilities for financial reporting and internal control. The Board carries out this responsibility principally through its audit committee. The members of the audit committee are appointed by the Board and have sufficient financial expertise to assume this role with the Company. The majority of the audit committee members are not involved in the Company's daily operations.

## **CORPORATE OVERVIEW**

On May 31, 2010, Xmet Inc. ("Xmet" or the "Corporation or the "Company") completed the acquisition of On-Strike Gold Inc. ("On-Strike") by way of a "three-cornered" amalgamation in which Eminence Capital II (OSG) Inc., ("Eminence"), a wholly-owned inactive subsidiary of the Corporation amalgamated with On-Strike to form Duquesne-Ottoman Mines Inc. ("DOM"). As a result DOM is now a wholly-owned subsidiary of Xmet, the legal parent and reporting Issuer.

Xmet was incorporated as Eminence Capital II Inc. under the Business Corporations Act (Ontario) on August 2, 2006 and classified as a "Capital Pool Company" as defined in Policy 2.4 of the TSX Venture Exchange (the "Exchange"). It did not own any material assets other than cash and its principal activities consisted of financing through an initial public offering, obtaining an initial listing of common shares on the Exchange, the identification of potential acquisitions, the negotiation of the Definitive Transaction Agreement with On-Strike and efforts to implement the Proposed Qualifying Transaction pursuant to the Capital Pool Company Program.

DOM (formerly "On-strike Gold Inc.") was incorporated on November 13, 2009 under the Business Corporations Act (Ontario). It is engaged in the business of exploration and development of mineral properties in the Provinces of Quebec and Newfoundland. DOM's primary project was the Duquesne-Ottoman Project, consisting of a total of 60 claims covering an area of 928.6 hectares located approximately 30 kilometres north of the city of Rouyn-Noranda and 10 kilometres east of the village of Duparquet within the townships of Duparquet and Destor in the Province of Quebec.

Concurrent with a Change in Corporate Structure the Company elected to change its financial year-end from August 31 to December 31 for consistency with other publicly traded mining companies.

Xmet is a mineral exploration company engaged in the acquisition, exploration and development of early stage mineral resource properties in Canada. The Company's current focus is on gold and graphite exploration with its current gold properties located in Quebec and its graphite properties in Ontario

The Company trades on the TSX Venture Exchange, symbol XME-V, and the OTCQX, symbol XMETF.

## **RESULTS OF OPERATIONS – PROJECTS REVIEW**

### **Investing Activities** **Properties**

Xmet's principal investment activities consist of mineral exploration.

#### **Grasset Property**

The Grasset Property was staked during 2011 to cover the eastern extension of the Detour- Sunday Lake deformation zone in the vicinity of historic gold and copper mineral occurrences. Staking was done in response to a new discovery made by Balmoral Resources and announced in a press release on 14 July, 2011.

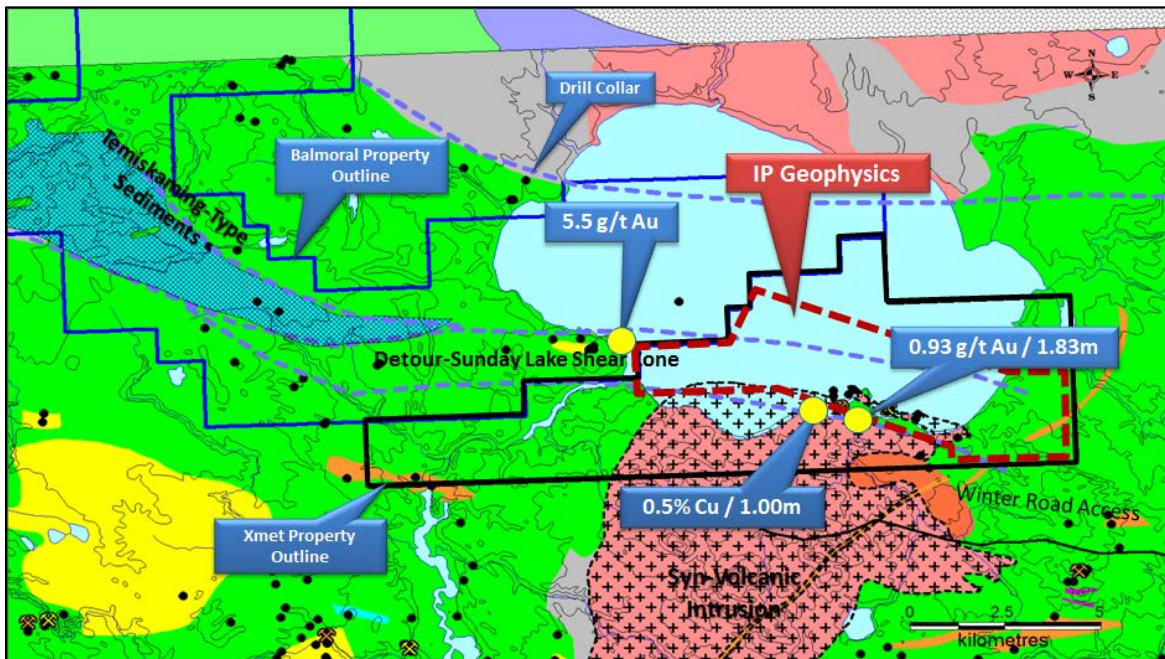
#### *Description of Property*

The Grasset Property is located in the northern part of the Abitibi greenstone belt, approximately 50km west of Matagami, Quebec. The property was originally comprised of 128 contiguous exploration licenses totalling 7,040 hectares or 17,388.8 acres and 100% owned by Xmet Inc. through its wholly-owned subsidiary Duquesne-Ottoman Mines Inc. In June 2013, the Company renewed 114 of these licenses, for which it had completed sufficient assessment work and are in good standing until August 2015.

## History

The property has been subjected to relatively little exploration work. A total of 14 drill holes were collared on the claims between 1959 and 1987, for a total of 1,910 m. All of the holes were drilled from land and no holes were collared in Grasset Lake. Few geophysical surveys were undertaken, consisting mainly of magnetic/gradiometric and electromagnetic surveys.

Two mineral occurrences have been identified on the property. The Ingamar occurrence consisting of 0.93 g/t Au over 1.83 metres and the Harricana-Turgeon occurrence of 0.50% Cu over 1.0 metres, both of which are located along the south shore of the lake (figure 1). In addition, on the western shore of the lake, a few hundred metres from the property boundary a showing is reported to have assayed 5.5 g/t Au in grab sample.



**Figure 1: Summary of historical results and geological compilation, Grasset Property.**

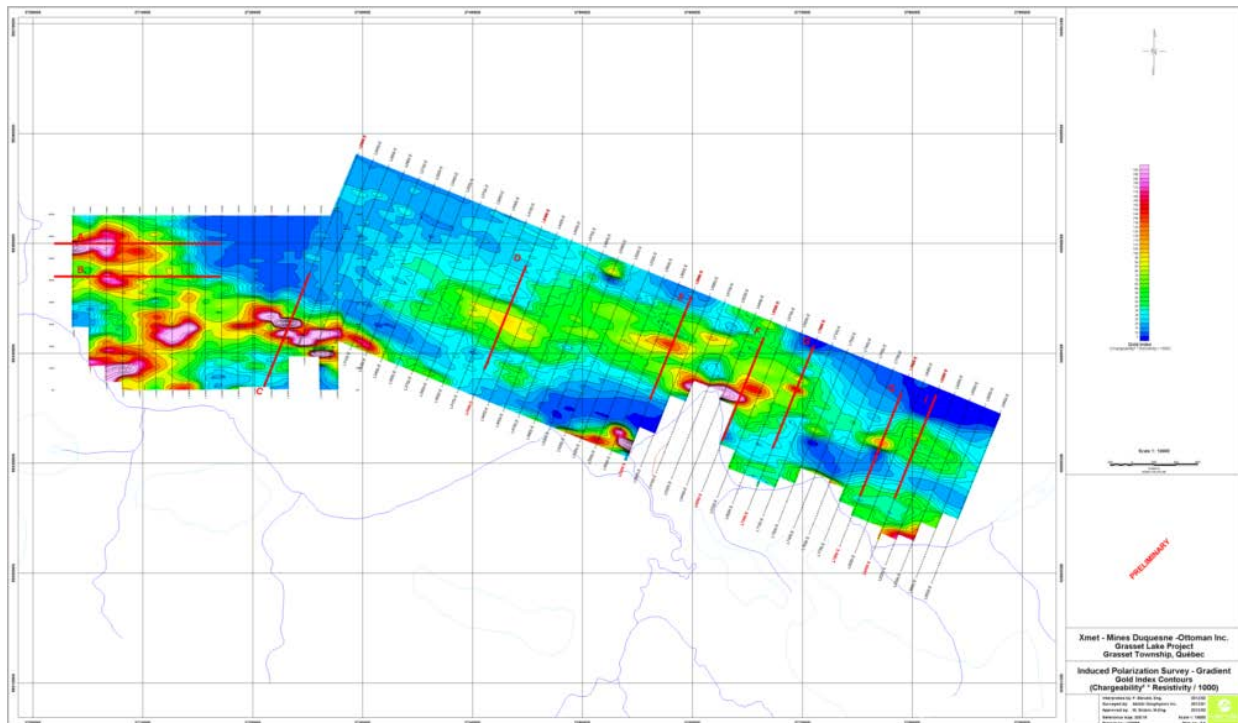
## Exploration Work on the Property

The property is located in a very promising regional context. The Detour-Sunday Lake deformation zone is interpreted to cross the claims near the south shore of Grasset Lake. This deformation corridor is host to major deposits such as Detour Lake (348 MT at 1.02 g/t Au; 16.5 million ounces Au) and new discoveries in Martinière (2.30 g/t Au over 28.40 metres) and Fenelon (88,390 T @ 10.91 g/t Au). Moreover, Balmoral Resources Inc. Recently announced, the discovery of a new zone on their Grasset Property (6.15 g/t Au over 4.04 metres and 4.18 g/t Au over 5.0 metres) is located 20 kilometres northwest of Xmet's property (see Balmoral News Release dated 14 July 2011).

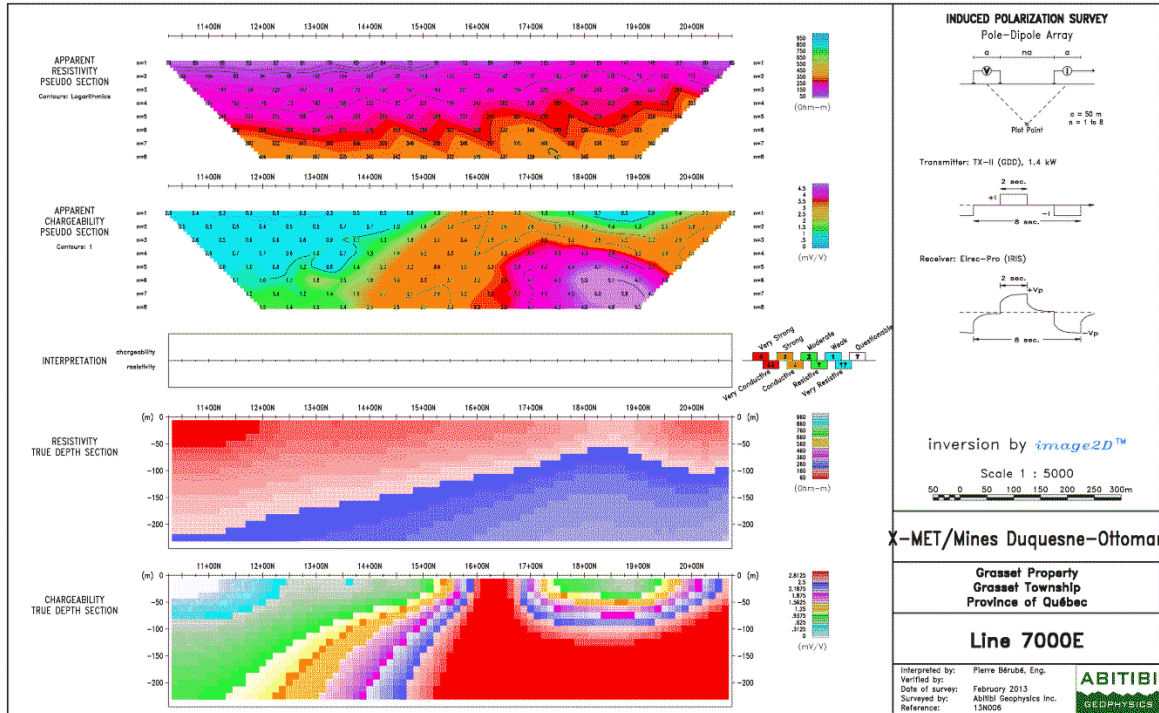
In early March 2012 a geophysical crew was mobilized onto the property to carry out an induced polarization survey over the interpreted trace of the Detour-Sunday Lake deformation zone. However only the western third of the program was completed when early and rapid onset of spring conditions forced work stoppage and postponement of the survey until next winter. Results of the completed part of the survey were announced on 3 May, 2012. The survey clearly identified a favourable gold target in the survey.

During January and February 2013, the contractor returned to the property and completed the survey (figure 2). Significant bedrock conductors were highlighted by the survey and suggest that some gold-type mineralized features are present (see red colored areas) that warrant follow up. Some additional lines were surveyed over the anomalies using a pole-dipole geometry to obtain profile data in order to allow drill targeting.

The results for line 7000E are shown in figure 3. A well-developed chargeability anomaly appears near the northern end of the line but with no decrease in resistivity. This type of anomaly is typical of gold-bearing shear zones with modest amounts of disseminated sulfides that are not interconnected and hence do not provide a conductive EM response or a drop in resistivity. Interestingly this response was obtained immediately north of the historical intersection of 0.93 g/t Au over 1.83 metres.



**Figure 2: Induced Polarization Survey, Gold Potential Index. Grasset Property, Quebec. Gold potential Index = Chargeability<sup>2</sup> / Resistivity / 1000.**



**Figure 3: Induced Polarization Survey, Grasset Property, Quebec. Pole-Dipole survey on line 7000E.**

## Authier Property

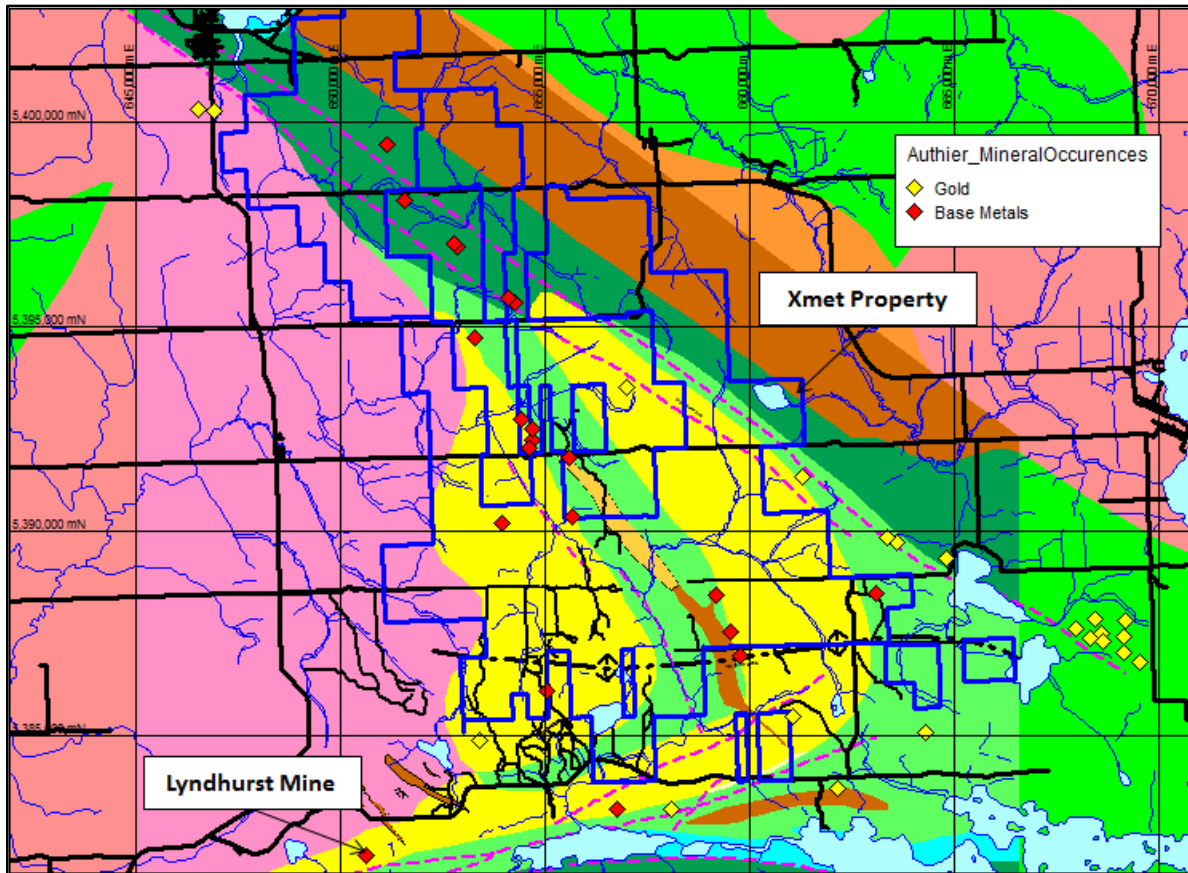
The Authier Property was staked by Xmet to cover the Macamic Deformation Zone and also to cover the volcanic rocks that form the Poularies-Privat volcanic complex. This sequence of rocks is underlain by a synvolcanic pluton and hosts the Lyndhurst and Hunter Mines, both of which are documented VMS alteration/mineralized systems. The area was flown by Megatec in the early 2000's and Noranda drilled and tested some conductors, encountering anomalous base metal concentrations.

### Description of Property

The Authier Property is located mainly in Poularies and Privat townships in the western Abitibi Region of Quebec, approximately 60km northeast of Rouyn-Noranda. The property is composed of 82 exploration licenses totaling 3,743 hectares or 9,245 acres. The property is divided into three contiguous claim blocks, the Authier SE (51 claims), Authier NW (27 claims) and Authier Centre (4 claims). The claims are 100% owned by Xmet Inc. through its wholly-owned subsidiary Duquesne-Ottoman Mines Inc.

### History

Numerous exploration programs have been undertaken in the area of the claims since the first recorded work in 1950. Activities include drilling but also geological mapping, qualifying reports and numerous geophysical surveys including induced polarization surveys. Only 14 drill holes totaling 1,220 metres were collared on the current property. Two holes intersected significant mineralization. Hole L29 (GM-1739E) 7.23% Cu and 1.86 g/t Ag over 0.15 metres (figure 3).



**Figure 4: Outline of Authier Property with geology and compilation.**

### *Exploration Work on the Property*

To date little work has been done on the property. In 2011 a reconnaissance mapping and prospecting program was undertaken to investigate the trace of the Macamic fault zone. The structure does not outcrop on the property and the area is covered by glacial outwash gravels and clay.

During July and August, 2012 a mapping and lithochemical sampling program was undertaken on the property. A total of 115 samples were collected and submitted for whole rock geochemical analysis including the common trace elements. In addition a representative suite of pulps was submitted for additional analysis of rare earth elements to provide additional discrimination of petrogenetic type.

Reprocessing of the Megatrem airborne EM survey was commissioned by Condor Consulting and this has provided new and previously undetected EM anomalies associated with interpreted exhalative conductors mapped on the property.

The Authier property report has been prepared and submitted to the Quebec government for assessment credits.

The Livaudière Property was staked by Xmet to cover some historic INPUT anomalies that occur within a sequence of mafic volcanics north of the Matagami sediments, a Temiskaming type sedimentary basin. The anomalies occur within the interpreted eastern extension of the volcanic rocks which host the Detour gold deposit (18.4M ounces Au) and the deposits currently being explored by Balmoral Resources.

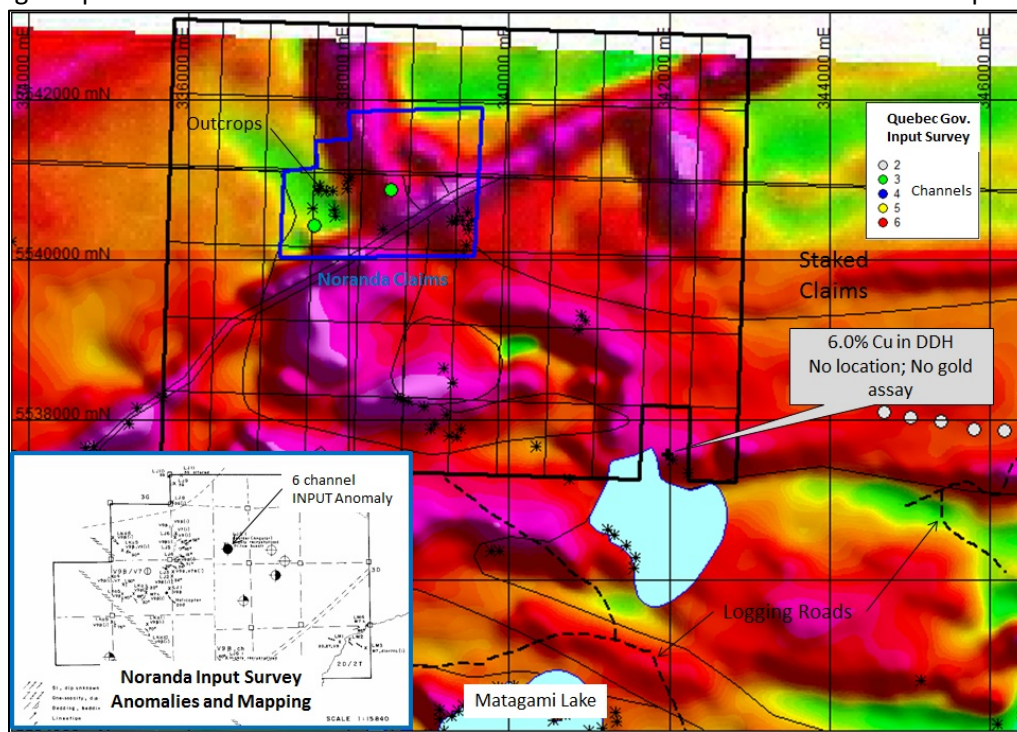
### Description of Property

The Livaudière Property is located at the northern limit of the Abitibi greenstone belt and approximately 40km northeast of Matagami, Quebec. The property is composed of 71 exploration licenses (claims) totaling 3,905 hectares (9,763 acres) and the claims are 100% owned by Xmet through its wholly owned subsidiary, Duquesne-Ottoman Mines Inc.

### History

The property is located on the interpreted eastern extension of the Detour-Sunday Lake Deformation zone between the Temiskaming Type sedimentary rocks of the Matagami Group to the south and Opatca gneisses to the north. The claims are interpreted to cover deformed and altered mafic volcanic rocks.

The area was covered by an airborne INPUT electromagnetic/magnetic geophysical survey flown by Noranda Exploration in the early 80's (figure 5). A series of scattered 3 to 6 channel anomalies occur over a 600 by 500m area were outlined by the survey and the anomalies were confirmed by a ground EM survey. However, the anomalies are covered by glacial till and do not outcrop. Noranda personnel spent a few days mapping the property noting the presence of weak mineralization but none of the INPUT anomalies were explained.



**Figure 5: Livaudière Property and compilation with total field magnetics.**

### *Exploration Work on the Property*

The area of the property is underlain by mainly mafic volcanic rocks that are intruded by gabbro and tonalite dykes and cut by a later northeast trending diabase dike. No sediments were observed but Noranda reported the presence of thin cherty tuff layers.

A field validation visit in August of 2011 confirmed that the INPUT anomalies are located above 320m elevation, that is, above the clay layer of glacial lake Ojibway and may be effectively prospected using a Beep Mat. In addition till samples may be collected down ice from the anomalies. An access trail was constructed in the fall of 2011.

A limited field program was undertaken in June 2012 to prospect for conductive boulders with the Beepmat. A total of 4 man-days of prospecting was carried out but failed to uncover any significant conductivity down-ice from the conductors.

## **Duquesne-Ottoman**

### *Description of Property*

The Duquesne-Ottoman (DO) property is located approximately 50 kilometres north of the city of Rouyn-Noranda and 10 kilometres east of the village of Duparquet within the townships of Duparquet and Destor in the province of Quebec

The DO property is comprised of 20 claims known as Duquesne West Block and 40 claims, known as Ottoman Fault Block (more commonly referred to as Ottoman), and covers an area of 928.6 hectares. All claims are in good standing and held 100% by Duparquet Assets Inc.

On February 18, 2010, Xmet entered into a Mining Option Agreement (the "Agreement") with Duparquet Assets Ltd. ("Duparquet"), the registered and beneficial owner of the Duquesne-Ottoman mineral claims, under which Xmet was granted the exclusive right to acquire 75% of the common shares of Duparquet.

On March 5, 2012, Xmet entered into a new Share Option Agreement ("Share Option") with Duparquet, Globex Mining Enterprises Inc. ("Globex") and Geoconseil Jack Stoch Ltee. ("GJSL"), (collectively the "optionors"), which granted the Company an accelerated option to acquire either a 75% or 100% interest in Duparquet.

On April 25, 2013, cash payment deadlines were extended until June 30, 2013 with a payment of \$200,000 due at that time. The terms of the Duquesne acquisition were not financeable in the current junior resource market and the agreement expired. Exploration costs of \$3,874,202 incurred on the project were written off.

## Blackflake

### *Description of Property*

The Blackflake properties are located within the Porcupine Mining District of northern Ontario approximately 60 kilometers northwest of Hearst.

The property is composed of two land positions for a total of 181 claim units covering a total of 2,96 hectares (7,240 acres) and located within the border phase of the northwestern and southeastern margins of the Nagami River carbonatite/alkaline intrusion. The property has been acquired based on a search and evaluation of historical data in the region that has identified favorable magnetic lows that occur along the western margin of an oval shaped, 27km by 27km intrusion. Two of the claim blocks totaling 70 claim units are contiguous and the third block of 111 claim units is to the southeast. The claims are 100% owned by Xmet Inc. through its wholly-owned subsidiary Duquesnes-Ottoman Mines Inc.

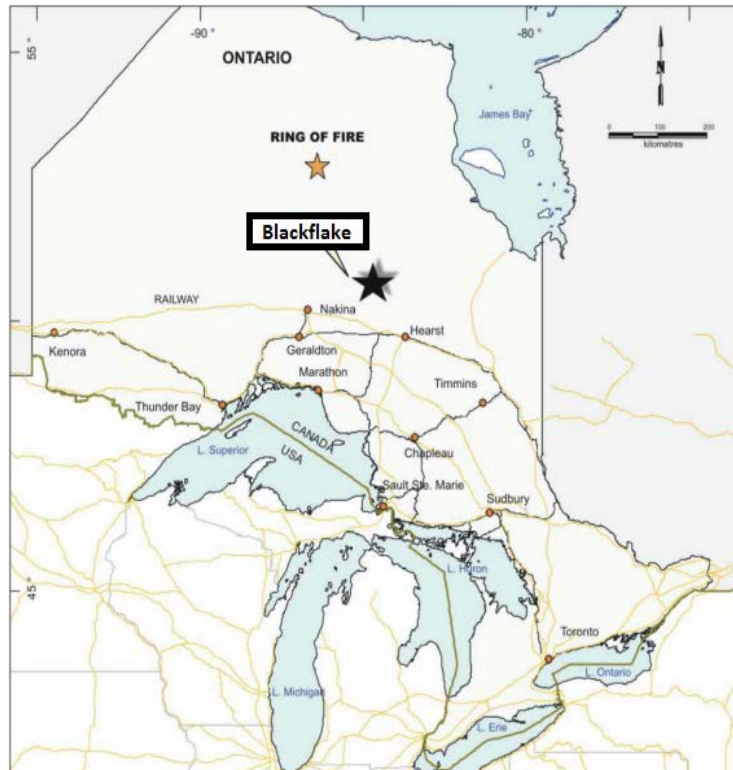
### *History*

The claims blocks are located north of Lake Superior and southwest of James Bay within the Porcupine Mining District of Northern Ontario. The Claims are all located north of Highway 11 and the town of Hearst is situated approximately 60km away.

The Claims are situated within the Hudson Bay-James Bay Lowlands area where the topography is essentially flat, low-lying and swampy. Overburden is very thick in places with little or no outcrop exposure. There are many creeks flowing between peat bogs throughout the area. Vegetation is dominated by wetlands, with some areas of spruce and alder trees, and cedar swamps. Spruce and alder trees are also abundant along the banks of the Nagagami River and other smaller rivers.

The Claims are located in a remote area of Northern Ontario. Access to most of the Claims can only be gained using float plane, helicopter and All-Terrain-Vehicle. Some of the Claims located near the Kenogami River, or other rivers are accessible by boat or canoe.

The Claims are situated in Northern Ontario where there are different climates and weather extremes. Most of the region has a continental climate with warm to hot summers (June, July and August; 25oC to 35oC) and cold winters (December to March, 10 oC to -20 oC). Spring and autumn tend to be short seasons and have some of the weather of winter and summer. As a generalization, precipitation ranges from 600 mm to around 900 mm. Surface exploration work can be carried out during the months of May to November, possibly later if there is no accumulation of snow. Additional exploration work (geophysical surveys and diamond drilling) can be conducted year-round.



**Figure 6: Location of Blackflake property in Northern Ontario**

## RESULTS OF OPERATIONS - FINANCIAL PERFORMANCE

### Three Month Period Ended September 30, 2013

For the three month period ended September 30, 2013, the Company posted a comprehensive loss of \$109,100 (2012: \$183,885). The activity was comprised of the following expenditures: Professional fees of \$37,416 (2012: \$45,000), Management fees of \$38,750 (2012: \$76,025), general and administrative expenses of \$32,395 (2012: \$44,425), share based compensation expense of \$Nil (2012: \$18,001) and depreciation of \$539 (2012: \$1,005), partially offset by revenue of \$Nil (2012: \$671). The Company is involved in early stage exploration projects and holds no interests in producing or commercial ore deposits. The Company generates no sources of revenue from its mineral properties.

### Nine Month Period Ended September 30, 2013

For the nine month period ended September 30, 2013, the Company posted a comprehensive loss of \$4,277,907 (2012: \$880,017). The activity was comprised of the following expenditures: Professional fees of \$149,338 (2012: \$244,713), Management fees of \$159,477 (2012: \$188,474), general and administrative expenses of \$178,056 (2012: \$287,235), share based compensation expense of \$4,042 (2012: \$103,901) and depreciation of \$1,792 (2012: \$2,085), partially offset by revenue of \$16,500 (2012: \$6,158) and gain on sale of assets of \$5,080 (2012: \$Nil). The Company recorded a deferred income tax recovery from the premium on flow-through private placement of \$67,420 (2012: \$(59,767)). The Company wrote down exploration and evaluation assets of \$ 3,874,202 (2012: \$Nil).



**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**For the Period Ended September 30, 2013**

The Company is involved in early stage exploration projects and holds no interests in producing or commercial ore deposits. The Company generates no sources of revenue from its mineral properties.

Exploration activity for the nine month period ended September 30, 2013 totaled \$338,188 (2012: \$992,565) with \$116,949 (2012: \$270,492 ) of these expenditures recoverable through the Quebec exploration refund program and the mining return refundable credit.

The Company is currently financed to carry out its near-term exploration activities. In December 2012 the Company raised \$351,000 to carry out planned exploration. (See Liquidity and Capital Resources section).

Unrestricted cash was \$24,531 at September 30, 2013 (2012: \$24,862) while funds earmarked for flow-through funded activities were \$25,882 (2012: \$239,068) for a total of \$50,413 (2012: \$263,930) cash and cash equivalents.

**SELECTED FINANCIAL RESULTS**

**Selected Period Information**

	<b>Quarter ended September 30, 2013</b>	<b>Quarter ended June 30, 2013</b>	<b>Quarter ended March 31, 2013</b>	<b>Quarter ended December 31, 2012</b>
Revenues	\$ -0-	\$ 16,500	\$ 8,095	\$ 118
Expenses	109,100	173,753	209,850	7,583
Net Loss	109,100	3,987,359	173,351	7,465
Deficit, end of period	8,064,156	7,946,960	3,959,600	3,786,249
Basic and fully diluted loss per share	\$ 0.002	\$ 0.06	\$ 0.003	\$ 0.003
Total assets	\$ 888,900	\$ 947,309	\$ 4,974,561	\$ 5,197,779
	<b>Quarter ended September 30, 2012</b>	<b>Quarter ended June 30, 2012</b>	<b>Quarter ended March 31, 2012</b>	<b>Quarter ended December 31, 2011</b>
Revenues	\$ 671	\$ 3,377	\$ 3,377	\$ 3,461
Expenses (Recovery)	184,556	379,609	435,059	(551,278)
Net Loss (Gain)	183,885	376,232	431,682	(554,739)
Deficit, end of period	3,667,002	3,595,536	3,218,667	2,786,985
Basic and fully diluted loss (gain) per share	\$0.003	\$ 0.01	\$ 0.01	\$ ( 0.01)
Total assets	\$ 5,105,768	\$ 5,322,211	\$ 5,729,543	\$ 6,043,531

**Selected Annual Financial Information**

<b>Annual/Period Information</b>	<b>Year Ended December 31, 2012</b>	<b>Year Ended December 31, 2011</b>	<b>Period from October 1, 2010 to December 31, 2010</b>
Cash & cash equivalents & restricted cash	\$ 769,120	\$ 1,404,290	\$ 3,062,208
Total Assets	\$ 5,197,779	\$ 6,043,531	\$ 4,730,242
Shareholders' Equity	\$ 4,947,518	\$ 5,690,817	\$ 4,466,644
<b>Statement of Operations, Comprehensive Loss and Deficit Data</b>			
Total Revenue	\$ 7,543	\$ 26,280	\$ 3,788
Total Expenses	\$ 1,006,807	\$ 604,852	\$ 769,099
Loss for the year/period	\$ 999,264	\$ 578,572	\$ 765,311

**LIQUIDITY AND CAPITAL RESOURCES**

On December 28, 2012, the Company completed a brokered private placement through the issuance of 4,387,500 Flow Through shares at \$0.08 per share for gross proceeds of \$351,000, with 307,125 non-transferable compensation warrants were issued exercisable at \$0.087 per compensation warrant to acquire 307,125 Common Shares expiring on December 28, 2014.

Cash share issue costs totalling \$28,080 for commissions and legal fees were charged to shareholders' equity as share issue costs.

In connection with the private placement, 307,125 broker warrants were issued, exercisable at \$0.08 per warrant to acquire 307,125 common shares expiring on December 28, 2014. Cash share issue costs included a brokerage commission, based on 8% of the gross proceeds raised, of \$28,080 and legal fees of \$37,188.

The Company allocated \$87,750 of the proceeds as a flow-through share premium, equal to the estimated premium that the subscribers paid for the flow-through tax benefit. As \$270,449 of eligible expenditures were incurred against the Company's associated flow-through commitment to June 30, 2013, \$20,080 flow-through premium liability remains.

At September 30, 2013, the Company had positive working capital of \$534,064. The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Company has no regular cash flow however management anticipates that it has sufficient funding for its near-term exploration activities and that it will be able to raise sufficient cash to fund its acquisition and exploration programs and operations in the future. However there can be no assurance of future financings.

## **GOING CONCERN**

At present, the Company's operations do not generate cash flow and its financial success is dependent on management's ability to discover economically viable mineral deposits. The mineral exploration process can take many years and is subject to factors that are beyond the Company's control. In order to continue as a going concern and to meet its corporate objectives, which primarily consist of exploration work on its mineral properties, the Company will require additional financing through debt or equity issuances or other available means. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company. Management believes it will be able to raise equity capital as required in the long term, but recognizes there will be risks involved that may be beyond their control. The annual and interim financial statements do not include any adjustments to the recoverability and classification of reduced asset amounts and classification of liabilities that might be necessary should the Company be unable to continue operations. These adjustments could be material. The Company is not subject to material externally-imposed capital constraints.

## **Share Capital**

At November 29, 2013, the Company had the following outstanding share capital data:

- 64,818,045 issued and outstanding common shares
- 4,750,000 stock options at \$0.10 - \$0.30, expiring May 31, 2015 to March 28, 2017
- 307,125 compensation warrants exercisable at \$0.08 per warrant, expiring on December 28, 2014

## **OFF SHEET BALANCE ARRANGEMENTS**

The Company currently has no off-balance sheet arrangements or obligations other than mineral property option payments and exploration expenditures commitments.

## **PROPOSED TRANSACTIONS**

The Company may from time to time acquire or dispose of property assets as exploration results, opportunities, competitive nature of the business, venture-capital and management may determine.

On May 16, 2012 the Company announced that it had entered into a purchase agreement with Brionor Resources Inc. ("Brionor") to acquire twenty-four contiguous mineral claims from Brionor (known as the "Pitt Gold Project"), which claims are immediately adjacent to the Company's flagship Duquesne- Ottoman project in the Province of Quebec . On April 30, 2013 the purchase agreement expired and was terminated.

On September 19, 2012 the Company announced that it had entered into a purchase agreement with Clifton Star Inc. ("Clifton Star") to acquire one hundred and fifteen mineral claims, all contiguous with the exception of two claims, from Clifton Star (known as the "Duquesne Mine"), which claims are immediately adjacent to the Duquesne- Ottoman project in the Province of Quebec. On April 30, 2013 the purchase agreement expired and was terminated.

On November 4, 2013 the Company optioned 100% ownership interest in 24 claim units. In order to acquire the 100% stake in the 24 claim unit block, Xmet paid \$5,000 in cash and 300,000 shares of Xmet upon receipt of TSXV approval of the transaction and an additional \$5,000 in cash 90 days after TSXV approval of the transaction. In addition Xmet has agreed to fly an Electromagnetic Survey over the Blackflake Project after which Xmet can issue 1,700,000 million shares to the vendor to complete the acquisition of the 24 claim units. Metals Creek Resources, the vendor of the 24 claim unit block, will also hold a 1% Net Smelter Royalty ("NSR") interest from all ore production from the 24 claim unit block, subject to, the right of Xmet to buy back half of the NSR interest for \$500,000 and the final half for \$1,000,000 at any time

#### **ASSESSMENT OF RECOVERABILITY OF MINERAL PROPERTY COSTS**

The Company's recorded value of its exploration properties is based on historic costs that expect to be recovered in the future. The Company's recoverability evaluation is based on market conditions for minerals, underlying mineral resources associated with the properties and future costs that may be required for ultimate realization through mining operations or by sale.

#### **ASSESSMENT OF RECOVERABILITY OF FUTURE INCOME TAX ASSETS**

In preparing the annual financial statements, the Company is required to estimate its income tax obligations. The process involves estimating the actual tax exposure together with assessing temporary differences resulting from differing treatment of items for tax and accounting purposes. The Company assesses, based on all available evidence, the likelihood that the future income tax assets will be recovered from future taxable income and, to the extent that recovery cannot be considered "more likely than not", a valuation allowance is changed in a period, an expense or benefit must be included within the tax provision on the income statement.

#### **ESTIMATE OF STOCK BASED COMPENSATION AND ASSOCIATED ASSUMPTIONS**

On March 29, 2012, an aggregate of 700,000 options were granted to a director and an officer of the Company, exercisable at \$0.10 per share for five years.

These options were granted pursuant to the Company's Stock Option Plan.

#### **ASSESSMENT OF RECOVERABILITY OF GST/HST RECOVERABLE**

The carrying amount of sales taxes recoverable is considered representative of its respective value. The Company assesses the likelihood that these receivables will be recovered and, to the extent that recovery is considered doubtful a provision for doubtful accounts is considered.

## **COMMITMENTS AND CONTINGENCIES**

### **Contingencies**

The company is exposed to contingent losses and gains related to environmental matters discussed under Risks, and other various claims and lawsuits pending for and against the company in the ordinary course of business. Prediction of the outcome of contingencies (i.e., being likely, unlikely or undeterminable), determination of whether accrual or disclosure in the consolidated financial statements is required and estimation of potential financial effects are matters for judgment. While the amount recorded in the financial statements may not be material, the potential for large liabilities exists and therefore these estimates could have a material impact on our consolidated financial statements.

## **RELATED PARTY TRANSACTIONS**

Commencing June 1, 2010, certain officers, directors and companies controlled by officers and directors of the Company are charging management, advisory, accounting and exploration service fees to the Company. Technical consulting services are capitalized to the projects where applicable and the non-technical charges are expensed. The monthly charge for these services is currently approximately \$11,000. Management believes these transactions to be in the normal course of business and measure them at the exchange amount which is the amount of consideration established and agreed to by the related parties.

## **CRITICAL ACCOUNTING POLICIES AND ESTIMATES**

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards. A summary of the significant accounting policies used in the preparation of our financial statements is included in note 3 of the consolidated financial statements for the period ended June 30, 2013. The measurement of certain assets and liabilities is dependent upon future events whose outcome will not be fully known until future reporting periods. Therefore, the preparation of the consolidated financial statements requires management to make certain estimates and assumptions that affect the reported amounts of assets, liabilities, revenue and expenses. Actual results will vary from those estimated. Certain accounting policies are critical to understanding our reported financial results. These critical policies, which affect the significant areas involving management estimates, are described here.

### **Stock based compensation and other stock based payments**

Under IFRS, graded vesting awards are accounted for as through each instalment is a separate award. IFRS does not provide for an election to treat the instruments as a pool and recognize expense on a straight line basis. Straight line basis is permissible under Canadian GAAP. Under IFRS, the estimate of the number of equity settled awards that vest are adjusted to the actual number that vests, unless forfeitures are due to market-based conditions. There is no choice to accrue compensation costs as if all instruments granted were expected to vest and recognize the effect of the forfeitures as they occurred as elected by the Company under Canadian GAAP. The effects of these differences are not material given the limited number of equity settled awards issued by the company to date. Accordingly no related adjustment is provided for in the reconciliations

## Income Tax

The Company accounts for income taxes in accordance with the asset and liability method. Under this method, deferred income tax assets and liabilities are determined based on temporary differences between financial reporting and income tax bases of assets and liabilities, using substantively enacted tax rates in effect for the period in which the differences are expected to reverse. Deferred income tax assets are recorded to recognize tax benefits only to the extent that, based on available evidence, it is more likely than not that they will be realized.

Flow-through common share financings require the Company to spend an amount equivalent to the gross proceeds of the share issuance on Canadian qualifying exploration. The Company has indemnified the holders of such shares for any tax and other costs payable by them in the event the Company has not made the required exploration expenditures resulting in a proportional disallowed personal tax deduction.

## Exploration and evaluation expenditures ("E&E")

E&E assets consist of exploration and mining concessions, options and contracts. Acquisition and leasehold costs and exploration costs are capitalized and deferred until such time as the property is put into commercial production or the properties are disposed of either through sale or abandonment. These assets are not depreciated as they are currently not in use.

E&E costs consist of:

- Acquisition of exploration properties (staking only)
- Gathering exploration data through topographical and geological studies;
- Exploratory drilling, trenching and sampling;
- Determining the volume and grade of the resource;
- Test work on geology, metallurgy, mining, geotechnical and environmental; and
- Conducting engineering, marketing and financial studies.

Proceeds received from the sale of any interest in a property are first credited against the carrying value of the property, with any excess included in operations for the period. If a property is abandoned, the property and deferred exploration costs are written off to operations.

Where an indicator of impairment exists, a formal estimated recoverable amount is made, which is considered to be the higher of the fair value less costs to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as the amount that would be obtained from the sale of the assets in an arm's length transaction between knowledgeable and willing parties.

## RECENT ACCOUNTING PRONOUNCEMENTS

At the date of authorization of the company's financial statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods.

The Company has not early adopted these standards, amendments and interpretations; however it is currently assessing what impact, if any, the application of these standards or amendments will have on future consolidated financial statements.

**IFRS 10 - Consolidated Financial Statements** - In May 2011, the IASB issued IFRS 10 Consolidated Financial Statements which replaces all of the consolidation guidance in IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation – Special Purposes Entities. IFRS 10 is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted.

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated statements of a parent.

**IFRS 11 - Joint Arrangements** - In May 2011, the IASB issued IFRS 11 Joint Arrangements which replaces IAS 31 Interests in Joint Ventures and SIC-13 Jointly Controlled Entities. IFRS 11 is effective for annual periods beginning on or after January 1, 2013 with earlier adoption permitted.

IFRS 11 enhances the accounting guidance for joint arrangements, particularly by focusing on the rights and obligations of the arrangement, rather than the arrangement's legal form. It also addresses inconsistencies in the reporting of joint arrangements by requiring a single method of accounting for jointly controlled entities and prohibits proportionate consolidation.

**IFRS 12 - Disclosure of Involvement with Other Entities** - In May 2011, the IASB issued IFRS 12 which sets out the required disclosures for entities reporting under IFRS 10 and IFRS 11 and has the same effective date as those standards.

IFRS 12 is a comprehensive standard on disclosure requirements for all forms of interests, in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles.

There are no other IFRS or IFRIC Interpretations that are not yet effective that would be expected to have an impact on the Company's financial statements.

## Evaluation of Disclosure Controls and Procedures

Management has established processes to provide them sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the audited consolidated financial statements do not contain any untrue statement of material fact, or omit to state a material fact required to be stated, or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the periods presented by the audited consolidated financial statements, and (ii) the audited consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flow of the Company, as of the date of and for the periods presented.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109, Certification of Disclosure in Issuers' Annual and Interim Filings ("NI 52-109"), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (DC&P) and internal control over financial reporting (ICFR), as defined in NI 52-109.

In particular, the certifying officers filing this certificate are not making any representations relating to the establishment and maintenance of: (i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and (ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer's GAAP. The issuer's certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports.

### **Risk factors**

The following discussions review a number of important risks which management believes could impact the Company's business. There are other risks, not identified below, which currently, or may in the future exist in the Company's operating environment.

#### **Capital Needs**

The exploration, development, mining and processing of the Company's properties will require substantial additional financing. The only current source of future funds available to the Company is the sale of additional equity capital. There is no assurance that such funding will be available to the Company or that it will be obtained on terms favourable to the Company or will provide the Company with sufficient funds to meet its objectives, which may adversely affect the Company's business and financial position. Failure to obtain sufficient financing may result in delaying or indefinite postponement of exploration, development or production on any or all of the Company's properties or even a loss of property interest.

#### **Stage of Exploration**

The Company's properties are in the exploration stage and to date none of them have a proven ore body. The Company does not have a history of earnings or the provision of return on investment, and in future there is no assurance that it will produce revenue, operate profitably or provide a return on investment.

#### **Exploration and Mining Risks**

The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. Currently, there are no known bodies of commercial ore on the mineral properties of which the Company intends to acquire an interest and the proposed exploration program is an exploratory search for ore. Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, cave-ins, landslides and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in the conduct of exploration programs.

The Company, from time to time, increases its internal exploration and operating expertise with due advice from consultants and others as required. The economics of developing gold and other mineral properties is affected by many factors including the cost of operations, variation of the grade of ore mined and fluctuations in the price of any minerals produced. There are no underground or surface plants or equipment on the Company's mineral properties. Programs conducted on the Company's mineral property would be an exploratory search for ore.

#### Titles to Property

While the Company has diligently investigated title to the various properties in which it has interest, and to the best of its knowledge, title to those properties are in good standing, this should not be construed as a guarantee of title. The properties may be subject to prior unregistered agreements or transfer, or native or government land claims, and title may be affected by undetected defects.

#### Permits and Licenses

The Company's operations may require licenses and permits from various governmental authorities. There can be no assurance that the Company will be able to obtain all necessary licenses and permits that may be required to carry out exploration, development and mining operations at its projects.

#### Metal Prices

The price of the Company's common shares, its financial results, exploration and development activities have been, or may in the future be, adversely affected by declines in the price of gold and/or other metals. Gold prices fluctuate have historically fluctuated widely and are affected by numerous factors beyond the Company's control, including international, economic and political trends, expectations for inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and worldwide production levels. The effect of these factors on the price of precious and base metals, and therefore the economic viability of the Company's exploration projects, cannot accurately be predicted. Xmet does not have a hedging policy and has no present intention to establish one. Accordingly, Xmet has no protection from declines in mineral resource prices.

#### Competition

The mining industry is intensely competitive in all its phases. The Company competes with many companies possessing greater financial resources and technical facilities than itself for the acquisition of mineral interests as well as for recruitment and retention of qualified employees.

#### Uninsured Hazards

Hazards such as unusual geological conditions are involved in exploring for and developing mineral deposits. The Company may become subject to liability for pollution or other hazards, which cannot be insured against or against which the Company may elect not to insure because of high premium costs or other reasons. The payment of any such liability could result in the loss of Company assets or the insolvency of the Company.

#### Key Employees

Management of the Company rests on a few key officers, the loss of any of whom could have a detrimental effect on its operations

#### Conflicts of Interest

Certain directors or proposed directors of the Company are also directors, officers or shareholders of other companies that are similarly engaged in the business of acquiring, developing and exploiting natural resource properties. Such associations may give rise to conflicts of interest from time to time. The directors of the Company are required by law to act honestly and in good faith with a view to the best interests of the Company and to disclose any interest, which they may have in any project or opportunity of the Company. If a conflict of interest arises at a meeting of the board of directors, any director in a conflict will disclose his interest and abstain from voting on such matter. In determining whether or not the Company will participate in any project or opportunity, the directors will primarily consider the degree of risk to which the Company may be exposed and its financial position at that time.

#### Environmental Regulations

The Company's operations are subject to environmental regulations promulgated by government agencies from time to time. Environmental legislation provides for restrictions and prohibitions of spills, release or emission of various substances produced in association with certain mining industry operations, such as seepage from tailing disposal areas, which could result in environmental pollution. A breach of such legislation may result in imposition of fines and penalties. In addition, certain types of operations require submissions to and approval of environmental impact assessments. Environmental legislation is evolving in a manner, which means stricter standards, and enforcement, fines and penalties for non-compliance are more stringent. Environmental assessments of proposed projects carry a heightened degree of responsibility for companies and directors, officers and employees. The cost of compliance with changes in governmental regulations has a potential to reduce the profitability of operations. The Company intends to fully comply with all environmental regulations.

#### Governmental Regulation

Exploration activities on the Company's properties are affected to varying degrees by: (i) government regulations relating to such matters as environmental protection, health, safety and labour; (ii) mining law reform; (iii) restrictions on production, price controls, and tax increases; (iv) maintenance of claims; (v) tenure; and (vi) expropriation of property. There is no assurance that future changes in such regulation, if any, will not adversely affect the Company's operations. Changes in such regulation could result in additional expenses and capital expenditures, availability of capital, competition, reserve uncertainty, potential conflicts of interest, title risks, dilution, and restrictions and delays in operations, the extent of which cannot be predicted.

The Company is at the exploration stage on all of its properties. Exploration on the Company's properties requires responsible best exploration practices to comply with company policy, government regulations, maintenance of claims and tenure. The Company is required to be registered to do business and have a valid prospecting license (required to prospect or explore for minerals on Crown Mineral Land or to stake a claim) in any Canadian province in which it is carrying out work.

Mineral exploration primarily falls under provincial jurisdiction. However, the Company is also required to follow the regulations pertaining to the mineral exploration industry that fall under federal jurisdiction, such as the Fish and Wildlife Act.

If any of the Company's projects are advanced to the development stage, those operations will also be subject to various laws and regulations concerning development, production, taxes, labour standards, environmental protection, mine safety and other matters.

Canada Revenue Agency and provincial agencies

No assurance can be made that Canada Revenue Agency and provincial agencies will agree with the Company's characterization of expenditures as Canadian exploration expenses or Canadian development expense or the eligibility of such expenses as Canadian exploration expense under the Income Tax Act (Canada) or any provincial equivalent.

## **INVESTOR RELATIONS**

Inflection Capital has been retained to conduct the Company's investor relations program. The Company maintains a website at [www.xmet.ca](http://www.xmet.ca) which serves as an additional source of information for its investors.

## **Cautionary Note Regarding Forward-Looking Statements**

Certain of the statements made and information contained herein is "forward-looking information". These statements relate to future events or the Company's future performance. All statements, other than statements of historical fact, may be forward-looking statements. Generally, these forward-looking statements can be identified by the use of forward-looking terminology such as "anticipates", "plans", "budget", "scheduled", "continue", "estimates", "forecasts", "expect", "is expected", "project", "propose", "potential", "targeting", "intends", "believes" or variations of such words and phrases or statements that certain actions, events or results "may", "could", "would", "might", or "will be taken", "occur" or "be achieved" or the negative connotation thereof. These statements involve known and unknown risks, uncertainties and other factors that may cause actual results or events to differ materially from those anticipated in such forward-looking statements. The Company believes that the expectations reflected in those forward-looking statements are reasonable but no assurance can be given that these expectations will prove to be correct and such forward-looking statements included in this MD&A should not be unduly relied upon by investors as actual results may vary. These statements speak only as of the date of this MD&A and are expressly qualified, in their entirety, by this cautionary statement. In particular, this MD&A contains forward-looking statements, pertaining to the following: capital expenditure programs, development of resources, treatment under governmental and taxation regimes, expectations regarding the Company's ability to raise capital, expenditures to be made by the Company on its properties and work plans to be conducted by the Company. With respect to forward-looking statements listed above and contained in the MD&A, the Company has made assumptions regarding, among other things:

- uncertainties relating to receiving exploration permits;
- the impact of increasing competition;
- unpredictable changes to the market prices for minerals;
- exploration and developments costs for its properties;
- availability of additional financing and opportunities for acquisitions or joint-venture partners;
- anticipated results of exploration and development activities; and
- the Company's ability to obtain additional financing on satisfactory terms.

The Company's actual results could differ materially from those anticipated in these forward-looking statements as a result of the risk factors set forth below and elsewhere in this MD&A and Consolidated Financial Statements and Notes to the Financial Statements as at June 30, 2013 which can be found on SEDAR website ([www.sedar.com](http://www.sedar.com)): volatility in the market price for minerals; uncertainties associated with estimating resources; geological, technical, drilling and processing problems; liabilities and risks, including environmental liabilities and risks, inherent in mineral and oil and gas operations; fluctuations in currencies and interest rates; incorrect assessments of the value of acquisitions; unanticipated results of exploration activities; competition for, amongst other things, capital, undeveloped lands and skilled personnel; lack of availability of additional financing and farm-in or joint venture partners and unpredictable weather conditions. Although the Company has attempted to identify important factors that could cause results to differ materially from those contained in forward-looking statements, there may be other factors that cause results not to be as anticipated, estimated or intended. There can be no assurance that such statements will prove to be accurate, as actual results and future events could differ materially from those anticipated in such statements. Accordingly, readers should not place undue reliance on forward-looking statements. Readers are cautioned that the foregoing lists of factors are not exhaustive. Forward looking statements are made as of the date hereof and accordingly are subject to change after such date. The forward-looking statements contained in this MD&A are expressly qualified by this cautionary statement. The Company does not undertake to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise, except in accordance with applicable securities laws.