



# **AMERICAN VANADIUM CORP.**

## **MANAGEMENT'S DISCUSSION AND ANALYSIS**

**AS AT AND FOR THE SIX MONTHS ENDED JUNE 30, 2013**

## **Background**

This management discussion and analysis (“MD&A”) of financial position and results of operation for American Vanadium Corp. (the “Company” or “American Vanadium”) is prepared as at August 26, 2013. This MD&A should be read in conjunction with the Company’s unaudited condensed consolidated interim financial statements as at and for the six months ended June 30, 2013 and with the Company’s audited financial statements as at and for the year ended December 31, 2012.

Except as otherwise disclosed, all dollar figures included therein and in the following MD&A are quoted in Canadian dollars. Additional information relevant to the Company’s activities can be found on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Forward-Looking Statements**

Certain statements contained in the following MD&A constitute forward-looking statements. Such forward-looking statements involve a number of known and unknown risks, uncertainties and other factors which may cause the actual results, performance or achievements of the company to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Readers are cautioned not to place undue reliance on these forward-looking statements.

## **Company Overview**

Headquartered in Vancouver, Canada, the Company is a junior mining company focusing on the exploration and development of vanadium resources in the United States. The Company’s primary exploration property is the Gibellini Property (“Gibellini”), located in Eureka County, Nevada. In September 2011, the Company announced results from a feasibility study of Gibellini and an updated National Instrument 43-101 technical report was released in October 2011.

In December 2012, the Company submitted a Plan of Operation for Gibellini to the US Bureau of Land Management and a Reclamation Plan to the Nevada Division of Environmental Protection. These are significant steps required for the permitting process, which continues on schedule as of the date of this MD&A.

In May 2013, the Company entered into a master sales agreement with Gildemeister Energy Solutions, Cellstrom GmbH (“Gildemeister”) of Germany, whereby the Company will market and sell Gildemeister’s CellCube vanadium redox flow batteries in North America. The distribution activities could be operated independently of operating a mine at Gibellini, while availing of synergies from having an internal supply of vanadium. This agreement represents a significant step towards the Company becoming a provider of energy storage and micro grid solutions in North America, and provides for a potential high-value off-take avenue for Gibellini.

Currently, the Company is focusing its operational resources on three primary initiatives:

1. Continuing work with regulatory agencies to obtain permits required to develop a mine at Gibellini. To date, the permitting process has been successful and is on schedule, although the permitting process is expected to continue until 2014.
2. Developing a sales programme for Gildemeister batteries in North America. To facilitate this initiative, in the second quarter of 2013, the Company made arrangements with a major North American financial institution to provide lease financing for potential sales. Also in July 2013, the Company engaged a consultant to develop the energy storage and renewable energy microgrid markets for remote communities and First Nations in Canada and the United States.
3. Securing short and long-term financing for operating and project requirements. In the second quarter of 2013, the Company closed a private placement equity financing of \$1,125,388 and announced another private placement of up to \$2,500,000 of which \$250,000 was received as of the date of this MD&A. The Company has engaged various consultants to identify additional sources short-term financing and to focus on obtaining longer-term financing for the development of Gibellini.

The Company's shares are listed on the TSX Venture Exchange ("TSX-V") under the symbol "AVC".

### **Mineral Property Overview**

The following mineral property overview has been reviewed and approved by Alan Branham, a member of the American Institute of Professional Geologists (CPG#10979), a Certified Professional Geologist, and a "qualified person" as that term is defined in National Instrument 43-101.

#### *Gibellini Property, Eureka County, Nevada*

The Gibellini Property is approximately 4,254 acres in area and consists of 428 unpatented lode mining claims and seven placer claims. Of the unpatented lode claims, the Company holds 100% title to 376 claims. The remaining 52 claims are leased through on-going payments of US\$144,000, annually. These payments are treated as prepayments of net smelter royalties on future mine production from the property. The Company also holds title to the seven placer claims.

American Vanadium conducted a drilling program to obtain samples for metallurgical testing and verification of historic drill data. All metallurgical test work was performed by McClelland Laboratories (McClelland), of Sparks, NV. The holes were sited and drilled north and south of the holes used for a 2008 preliminary economic assessment to obtain a spatial representation of the mineralization across Gibellini. Metallurgical analysis performed on mineral samples from Gibellini indicates that the property's unique disseminated, sedimentary deposit allows for simple, sulphuric acid heap leach processing.

The Company engaged AMEC of Sparks, Nevada to produce a feasibility study (the "Feasibility Study") and a National Instrument 43-101 compliant technical report (NI 43-101 Technical

Report, Gibellini Vanadium Project, Nevada, USA by Hanson, Orbock, Hertel and Drozd, August 31, 2011) covering the Gibellini Hill and Louie Hill deposits on the Gibellini Property (the “Technical Report”). The Feasibility Study was completed in September 2011, with the Technical Report released in October 2011.

As part of the work program for the Feasibility Study, the Company completed a bulk sampling program in 2010, comprising the collection of samples from both oxide and transition vanadium zones from four different trenches on the project, and a two-phased diamond drill program. The first phase of diamond drilling obtained samples from 500 feet of core from each metallurgical types across six holes for a comprehensive metallurgical testing program. The second phase of diamond drilling resulted in geotechnical data that will provide information for design of the open pit, waste dump and access road designs.

American Vanadium and previous operators have drilled a total of 280 drill holes (51,265 ft) on Gibellini since 1946, comprising 16 core holes (4,046 ft), 169 rotary drill holes (25,077 ft; note not all drill holes have footages recorded) and 95 RC holes (22,142 ft).

The Technical Report shows that the Gibellini Hill deposit consists of:

- 120.5 million pounds of Proven and Probable vanadium pentoxide (“V<sub>2</sub>O<sub>5</sub>”) reserves from 20.0 million tons of ore at an average grade of 0.302%;
- 131.37 million pounds of Measured and Indicated V<sub>2</sub>O<sub>5</sub> resources (inclusive of Proven and Probable reserves) from 23.05 million tons of ore at an average grade of 0.285%; and
- 49.42 million pounds of Inferred V<sub>2</sub>O<sub>5</sub> resources from 14.23 million tons of ore at an average grade of 0.172%.

The Technical Report shows that the Louie Hill deposit consists of 41.87 million pounds of Inferred V<sub>2</sub>O<sub>5</sub> resources from 7.67 million tons of ore at an average grade of 0.27%.

The Feasibility Study shows that an operating mine would have an after-tax net present value of US\$170.1 million at a discount rate of 7%, and would generate an after-tax internal rate of return of 43%. Other highlights of the Feasibility Study are:

- 0.22 to 1 (waste:ore) strip ratio;
- 3.5 million tons mined per year;
- 65.9% average V<sub>2</sub>O<sub>5</sub> recovery;
- 11.4 million pounds average annual V<sub>2</sub>O<sub>5</sub> production;
- US\$4.10 average operating cost of per pound of V<sub>2</sub>O<sub>5</sub>;
- US\$95.5 million capital cost; and
- US\$10.95 per pound average V<sub>2</sub>O<sub>5</sub> selling price of over the life of mine.

The following operational, regulatory, and environmental steps have been taken in order to advance Gibellini towards development:

1. In August 2011, the Company obtained the necessary rights for all water usage that is required to operate a mine.

2. In November 2011, the Company awarded Scotia International of Nevada, Inc. a contract to manage the basic and detailed engineering, procurement and construction processes required during to develop a mine. In October 2012, the scope of this contract was enhanced to include engineering design of a borrow pit at Gibellini and electrolyte production. During the three months ended March 31, 2013, the Company recorded expenses of \$326,053 for basic engineering work and borrow pit design and \$215,187 for design work on electrolyte production that conducted under the scope of this agreement and scope amendments. As at March 31, 2013, the Company had a deposit for future work totaling \$568,895.
3. In April 2012, Mr. Ron Espell was appointed Vice President, Environmental. Mr. Espell will lead the initial environmental permitting of Gibellini, as well as ongoing environmental management.
4. In December 2012, the Company submitted its Plan of Operation to Bureau of Land Management (“BLM”) and Nevada Division of Environmental Protection (“NDEP”) to obtain all required operating permits and approvals. The Plan of Operations which details the plan for Gibellini from mine design, to processing facilities, to reclamation plan, was deemed complete by the BLM and the Notice of Intent to Prepare an Environmental Impact Statement was published in the Federal Register on April 22, 2013. Importantly, the Plan of Operations incorporates numerous product outputs for high purity vanadium products for the titanium alloying industry as well as electrolyte for the vanadium flow battery market. Preparation of the Nevada state permit applications is on-going and is expected to be submitted to the NDEP in the third quarter 2013, with final permit decisions expected in 2014.
5. During the six months ended June 30, 2013, the Company spent \$168,021 for on-going mineral claim leases and incurred \$1,565,317 in exploration and evaluation expenses.

The Company has made progress towards proving the purity of its own reserves as well as developing purification processes. Initial lab results have shown that vanadium produced from Gibellini is well-suited for use as an electrolyte for mass storage batteries as well as other higher margin product lines such as aluminum and titanium vanadium master alloys.

#### *Del Rio and Hot Creek Projects, Eureka County, Nevada*

In September 2010, the Company acquired mineral rights to the Del Rio Project (“Del Rio”), a vanadium project located approximately eight miles south of Gibellini. These wholly-owned mineral rights carry no royalty burden and were acquired by staking 120 unpatented lode claims on lands administered by the Bureau of Land Management.

In 2010, a smaller vanadium prospect, Hot Creek, was also acquired by staking 18 claims south of Del Rio with vanadium bearing shale, similar in geologic setting to Gibellini. This prospect will be explored along with the Del Rio.

#### **Voluntary Change in Accounting Policy**

The Company is party to a long-term engineering, procurement and construction management contract. Payments made pursuant to the contract are initially recorded as a deferred expense asset, which is then amortized on a percentage-of-completion basis in accordance with IAS 11

“Construction Contracts”. As at and prior to December 31, 2012, the Company measured percentage-of-completion on the basis of hours spent on the related project by the contractor as a proportion of total expected hours required. Commencing January 1, 2013, the Company now measures percentage-of-completion on the basis of elapsed time since the inception of the contract as a proportion of the estimated duration of the related work. The change in the basis of measurement of percentage-of-completion was made in order to more accurately recognize the Company’s contract expense in a reported period.

The change in measurement basis for percentage-of-completion has been applied retrospectively to all periods reported in MD&A. Although the total expense pursuant to the contract does not change, the timing of recognition of this expense over the life of the contract has resulted in comparative balances being different than those that were previously reported.

A reconciliation of certain comparative balances, as initially presented in accordance with the previous basis of measurement, to their current presentation is included in Note 3 of the Company’s unaudited condensed consolidated interim financial statements as at and for the six months ended June 30, 2013.

## **Financial Review**

As an exploration-stage company, American Vanadium does not have any operating revenues and its accounting policy is to expense exploration and evaluation expenditures incurred until technical and economic feasibility on a specific property has been established and the Company has obtained sufficient financing to fund mine development. The Company has completed a feasibility study on Gibellini, but does not have the funds required for development. As such, the Company continues to recognize an expense for all exploration and evaluation expenditures as incurred.

To date, the Company has not earned any revenues from vanadium sales, has not declared any cash dividends, and has not held any long-term debt.

Significant financial statement items are as follows:

|                       | June 30<br>2013 | December 31<br>2012 |
|-----------------------|-----------------|---------------------|
|                       | \$              | \$                  |
| <b>Balance Sheet:</b> |                 | Restated            |
| Cash                  | 30,091          | 1,716,318           |
| Total assets          | 3,267,000       | 4,648,886           |
| Long-term liabilities | -               | -                   |

  

|                                   | For the three months ended<br>June 30<br>2013 | June 30<br>2012 | For the six months ended<br>June 30<br>2013 | June 30<br>2012 |
|-----------------------------------|---|-----------------|---|-----------------|
| <i>For the three months ended</i> | \$  | \$              | \$  | \$              |
| <b>Operations:</b>                |   | Restated        |   | Restated        |
| Exploration expenditures          | 952,926                                       | 989,741         | 1,873,735                                   | 2,386,757       |
| Administrative costs              |   |                 |   |                 |
| General                           | 551,513                                       | 673,895         | 1,069,676                                   | 1,252,030       |
| Stock-based compensation          | 3,672   | 180,340         | 17,767                                      | 275,428         |
| Foreign exchange (gain) loss      | 4,504   | (23,526)        | (20,401)                                    | 12,482          |
| Interest income                   | (534)   | (2,305)         | (1,151)                                     | (6,533)         |
| Net comprehensive loss            | 1,512,081                                     | 1,818,145       | 2,939,626                                   | 3,920,164       |
| Basic and diluted loss per share  | 0.04  | 0.07            | 0.09  | 0.14            |
| Dividends per share               | -   | -               | -   | -               |

#### *Total assets*

The decrease in total assets as at June 30, 2013 to \$3.3 million from \$4.6 million as at December 31, 2012 is largely a result of cash expenditures for operating activities of \$2.6 million, which was partially off-set by \$1.1 million in proceeds for an April 2013 private placement of common shares and an increase of \$0.1 million to mineral properties.

The \$2.9 million in operating expenditures relate primarily to exploration and evaluation work on Gibellini, general and administrative expenses, payments for the engineering management contract and the payment of accounts payable and accrued liabilities recorded as at December 31, 2012.

#### *Net comprehensive loss*

As the Company has no sources of operating income, the net comprehensive loss for the six months ended June 30, 2013 was \$2.9 million, compared with net comprehensive loss for the six months ended June 30, 2012 of \$3.9 million. This decrease is primarily a result of a decrease in exploration and evaluation expense of \$513 thousand reflecting changes to the expected timeline and payment schedule for basic engineering work performed on Gibellini. Additionally, stock-based compensation decreased by \$258 thousand, reflecting the fact that most options currently outstanding are fully vested; a foreign exchange gain of \$20 thousand in 2013 compared with a loss of \$12

thousand in 2012; and general reductions in travel and other administrative costs decreased in 2013 reflecting the Company's cost-containment efforts.

## Second Quarter Results

Select expenses incurred by the Company are as follows:

|  | For the three<br>months ended<br>June 30,<br>2013 | For the three<br>months ended<br>June 30,<br>2012 |
|--|---|---|
|  | \$  | \$  |
|  |   | Restated  |
| Exploration and evaluation expenses            | 952,926   | 989,741   |
| General and administrative expenses:           |   |   |
| Salaries and benefits                          | 190,394   | 297,084   |
| Consulting                                     | 135,607   | 121,804   |
| Office facilities and administrative costs     | 51,931  | 47,641  |
| Investor relations and shareholder information | 34,348  | 25,648  |
| Audit and legal                                | 36,344  | 40,556  |
| Other  | 18,219  | 31,660  |
| Travel   | 60,571  | 86,784  |
| Office and sundry                              | 24,099  | 22,718  |
| Stock-based compensation                       | 3,672   | 180,340   |
| Total general and administrative expenses      | (555,185)   | (854,235)   |
| Foreign exchange gain (loss)                   | (4,504)   | 23,526  |
| Interest income                                | 534   | 2,305   |
| Net comprehensive loss                         | (1,512,081)                                       | (1,818,145)                                       |

Substantially all of the exploration and evaluation expenses incurred for the three months ended June 30, 2013 relate to work conducted on Gibellini. These costs include: \$327 thousand for environmental permitting; \$284 thousand for engineering, procurement and construction management; \$278 thousand for metallurgical test program; and \$42 thousand for office and administrative costs directly related to Gibellini.

Stock-based compensation expense for the three months ended June 30, 2013 was \$4 thousand, compared with \$180 thousand for the six months ended June 30, 2012. This decrease is owing to fewer options being granted or vesting in the current period than in the comparative period.

Salaries and benefits decreased to \$190 thousand for the three months ended June 30, 2013 from \$297 thousand for the three months ended June 30, 2012, reflecting a decrease in staff levels.

Other general and administrative expenses were consistent between the three months ended June 30, 2013 and the three months ended June 30, 2012.

The Company recorded a \$5 thousand foreign exchange loss for the three months ended June 30, 2013 which resulted from an decrease in the value of the Canadian dollar against the US dollar; compared to a foreign exchange gain of \$24 thousand for the three months ended June 30, 2012.



## **Financial Condition, Liquidity and Capital Resources**

As at June 30, 2013, the Company had a working capital deficit of \$710 thousand compared to working capital of \$1.2 million as at December 31, 2012. The June 30, 2013 deficit includes cash of \$30 thousand and \$589 thousand in deferred engineering management expense and deposit, offset by liabilities of \$1.4 million. The decrease in the Company's working capital during the six months ended June 30, 2013 resulted from cash expenditures for mineral exploration and evaluation, as well as for general and administrative purposes.

The Company will use its existing working capital to fund near-term general and administrative expenses, but additional funds will be required to fund the required permitting process and design, engineering and development costs for a mine at Gibellini and to pay for long-term administrative expenses. Possible funding sources include equity or debt financing, and although the Company has been successful with its equity financings in the past, there is no assurance that future financing will be available or that financing terms will be attractive.

In April 2013, the Company raised \$1.1 million, net of cash issuance costs, from a non-brokered private placement of 1,607,698 common share units at a price of \$0.70 per unit. Each unit consists of one common share and one-half of one common share purchase warrant.

In June 2013, the Company announced another private placement of up to \$2.5 million for common share units consisting of one common share and one-half of one common share purchase warrant at a price of \$0.70 per unit. As of the date of this MD&A, \$250 thousand has been subscribed for under this private placement for 357,142 units of which none have yet been issued.

During the six months ended June 30, 2013, an additional \$35 thousand was received through the exercise of stock options.

Management is actively targeting sources of additional financing which would assure continuation of the Company's operations and exploration programs. In order for the Company to meet its liabilities as they come due and to continue its operations, the Company is solely dependent upon its ability to generate such financing. Possible funding sources include equity or debt financing, and although the Company has been successful with its equity financings in the past, there is no assurance that future financing will be available or that financing terms will be attractive.

As of August 26, 2013, the Company has 35,185,198 common shares issued and outstanding. An additional 3,834,359 warrants are outstanding, exercisable into common shares at prices between \$1.00 and \$1.20, and there are 2,344,250 stock options outstanding of which 687,500 are currently vested and "in the money".

## Summary of Quarterly Results:

| For the Three or Four Months Ended | Exploration and Evaluation <sup>2</sup> | General Expenses <sup>3</sup> | Stock-based Compensation <sup>3</sup> | Interest Income <sup>4</sup> | Net Comprehensive Loss | Basic and Diluted Loss Per Share |
|------------------------------------|---|-------------------------------|---------------------------------------|------------------------------|------------------------|----------------------------------|
|                                    | \$                                      | \$                            | \$                                    | \$                           | \$                     | \$                               |
| June 30, 2013                      | 952,926                                 | 551,513                       | 3,672                                 | 534                          | 1,512,081              | 0.04                             |
| March 31, 2013                     | 920,809                                 | 518,163                       | 14,095                                | (617)                        | 1,427,545              | 0.04                             |
| December 31, 2012 <sup>5</sup>     | 1,004,061                               | 512,166                       | 17,732                                | (1,352)                      | 1,567,430              | 0.05                             |
| September 30, 2012 <sup>5</sup>    | 1,238,299                               | 539,863                       | 41,620                                | (1,814)                      | 1,784,533              | 0.07                             |
| June 30, 2012 <sup>5</sup>         | 989,741                                 | 673,895                       | 180,340                               | (2,305)                      | 1,818,146              | 0.07                             |
| March 31, 2012 <sup>5</sup>        | 1,397,016                               | 578,135                       | 95,088                                | (4,228)                      | 2,102,019              | 0.08                             |
| December 31, 2011 <sup>1</sup>     | 752,715                                 | 875,056                       | 228,456                               | (8,588)                      | 1,660,534              | 0.06                             |
| August 31, 2011                    | 726,009                                 | 433,461                       | 162,962                               | (7,193)                      | 1,297,666              | 0.05                             |

### Explanatory Notes:

1. Due to a change in financial year-end from February 28 to December 31, the Company did not issue results for the three months ended November 30, 2011. Instead, the period ended December 31, 2011 is a four-month period.
2. Exploration and evaluation costs between the three months ended March 31, 2012 and December 31, 2012 increased were higher than other quarters, primarily owing to environmental permitting and engineering charges incurred to complete the Plan of Operation, and have subsequently decreased as the Company awaits permitting results and seeks financing to develop Gibellini.
3. General expenses have been consistent in periods subsequent to August 31, 2011 with the exception of the period ended December 31, 2011, which is a four-month period and included bonus amounts paid on the completion of a feasibility study and the period ended June 30, 2012, which included a signing bonus for an employment agreement.  
  
As additional employees were hired and stock options granted, there is a general trend to increasing stock-based compensation expense through the quarter ended June 30, 2012, although as many options became fully vested, stock-based compensation has fallen sharply since the quarter ended June 30, 2012.
4. The Company earns interest income from funds on deposit but has no operating revenue. Interest income is dependent upon the amount of funds on deposit and interest rates paid.
5. Following the change described under "Voluntary Change in Accounting Policy," herein, amounts reported for exploration and evaluation expense, net loss and loss per share for certain periods have been restated.

### Transactions with Related Parties

During the six months ended June 30, 2013, a \$39,000 (2012 - \$39,000) expense was recorded for office facilities, corporate and administrative services provided by a company jointly controlled by a director of the Company, of which \$14,407 (December 31, 2012 - \$27,605) is included in accounts payable and accrued liabilities.

During the six months ended June 30, 2013, a \$90,000 expense (2012 - \$90,000) was recorded for consulting services provided by a company jointly controlled by a director of the Company.

Included in prepaid expenses as at June 30, 2013 is \$10,000 (December 31, 2012 - \$10,000) advanced to the Chief Executive Officer of the Company for corporate expenses to be incurred

on the Company's behalf. Included in accounts payable and accrued liabilities is a total of \$1,834 (December 31, 2012 - \$10,186) owing to this officer.

Included in accounts payable and accrued liabilities as at June 30, 2013 is a total of \$13,285 (December 31, 2012 - \$21,453) owing to the Executive VP, Operations; and \$3,625 (December 31, 2012 - \$4,343) owing to the Vice President, Environmental.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

## **Financial Instruments and Risk Management**

As at June 30, 2013, the Company's financial instruments are comprised of cash, amounts receivable, reclamation deposits and accounts payable and accrued liabilities. With the exception of cash and restricted cash, all financial instruments held by the Company are measured at amortized cost. The fair values of these financial instruments approximate their carrying value due to their short-term maturities. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs used to determine fair values.

The levels of the fair value hierarchy are as follows:

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.

Financial instruments measured at fair value on the balance sheet are summarized in levels of fair value hierarchy as follows:

|      | <b>Level 1</b> | <b>Level 2</b> | <b>Level 3</b> |
|------|----------------|----------------|----------------|
|      | \$             | \$             | \$             |
| Cash | 30,091         | -              | -              |

The Company's financial instruments are exposed to certain financial risks, including currency risk, credit risk, liquidity risk and interest rate risk.

### *Currency risk*

A portion of the Company's expenses are incurred in United States dollars and financial instrument balances are held in this currency. A significant change in the currency exchange rates between the Canadian dollar relative to the United States dollar could have a negative effect on the Company's results of operations, financial position or cash flows.

The Company has not hedged its exposure to currency fluctuations and, as at June 30, 2013, the Company held \$3,074 (December 31, 2012- \$133,507) in United States dollars. A prolonged

\$0.10 increase (decrease) in the value of the Canadian dollar compared with the United States dollar would result in a \$307 foreign exchange loss (gain) based on United States dollar holdings as at June 30, 2013.

#### *Credit risk*

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash. The Company limits exposure to credit risk by maintaining its cash with large financial institutions. The Company does not have cash that is invested in asset backed commercial paper.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company requires additional financing to fund its existing financial obligations. Although, the Company has successfully accessed capital markets to fund its operations to date and management believes such sources remain available to the Company in the future, there is no assurance that such financing will be available to the Company on favourable terms.

#### *Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash is currently held in short-term interest bearing accounts which pay relatively low rates of interest, the Company considers the interest rate risk to be limited.

### **CAPITAL MANAGEMENT**

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 resource properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and will attempt to raise additional funds as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the six months ended June 30, 2013. The Company is not subject to externally imposed capital requirements.

## Off-Balance Sheet Arrangements

The Company has no off-balance sheet arrangements.

## Outstanding Share Data

The following securities are outstanding at August 26, 2013:

|   |                           |
|---|---------------------------|
| Common shares issued and outstanding :                        | 35,185,198 <sup>1,2</sup> |
| Shares issuable on the exercise of outstanding stock options: | 2,344,250                 |
| Shares issuable on the exercise of share purchase warrants:   | 3,834,358 <sup>2</sup>    |

<sup>1</sup> In addition to the current number of issued and outstanding shares, the Company's Board has approved for the issuance of up to an additional 3,484,000 common shares, based on completing various operational, strategic and financial milestones, of which 2,700,000 are subject to Exchange approval.

<sup>2</sup> The Company has received subscription receipts for 357,142 private placement units, each consisting of one common share and one-half a share purchase warrant, which have not yet been issued. Consequently, an additional 357,142 common shares and 178,571 share purchase warrants are currently issuable upon closing of the private placement.

## Critical Judgments and Estimates

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results may differ from those estimates. Estimates are reviewed on an ongoing basis based on historical experience and other factors that are considered to be relevant under the circumstances. Revisions to estimates on the resulting effects of the carrying amounts of the Company's assets and liabilities are accounted for prospectively.

Notwithstanding the accounting policy change discussed under "Voluntary Change to Accounting Policy," herein, the Company's significant accounting policies and estimates are included in Note 3 of its audited financial statements for the year ended December 31, 2012.

## **Future Changes in Accounting Policies**

Certain new accounting standards and interpretations have been published that are not mandatory for the current reporting period. These standards have been assessed to not have a significant impact on the Company's financial statements:

i. IAS 32, "*Financial Instruments: Presentation*"

IAS 32 is amended to clarify requirements for offsetting financial assets and financial liabilities. This accounting policy is effective for fiscal years beginning on or after January 1, 2014.

IFRS 7, "*Financial Instruments: Disclosures*"

IFRS 7 is amended to enhance disclosure requirements related to offsetting financial assets and financial liabilities. This accounting policy is effective for fiscal years beginning on or after January 1, 2015.

ii. IFRS 9, "*Financial Instruments*"

The IASB intends to replace IAS 39 – "*Financial Instruments: Recognition and Measurement*" in its entirety with IFRS 9. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. IFRS 9 has two measurement categories for financial assets: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest, in which case it is at fair value through profit or loss. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

## **Risks and Uncertainties**

Exploration of mineral properties involves a high degree of risk and the successful achievement of a profitable operation cannot be assured. Costs of finding and evaluating an ore body are substantial, and may take several years to complete. The Company must overcome many risks associated with an exploration property which include: confirming actual mineral resources; maintaining the Company's title to the underlying claims and leases; funding of all costs related to a commercial operating venture; completing the permitting process; developing a processing plant; and constructing a facility to support the property. Construction and operational risks including, but not limited to, equipment and plant performance, metallurgical, environmental, cost estimation accuracy, and workforce performance and dependability will all affect the profitability of an operating property.

External financing, primarily through the issuance of common shares will be required to fund its activities. There can be no assurance that it will be able to do so in the future.