# KAZAX MINERALS INC.

**Management's Discussion & Analysis**

**For the three and six months period ended June 30, 2013**

***The effective date of this MD&A is July 23, 2013***

## Introduction

The following management's discussion and analysis ("MD&A") of the financial condition and results of the operations of KazaX Minerals Inc. (the "Company") constitutes management's review of the factors that affected the Company's financial and operating performance for the three and six months period ended June 30, 2013. This MD&A was written to comply with the requirements of National Instrument 51-102 Continuous Disclosure Obligations.

This discussion should be read in conjunction with the unaudited condensed consolidated interim financial statements of the Company for the three and six months period ended June 30, 2013 and the audited consolidated financial statements of the Company for the nine months ended December 31, 2012 together with the notes thereto. Results in this MD&A are reported in United States Dollars, unless otherwise noted. In the opinion of management, all adjustments (which consist only of normal recurring adjustments) considered necessary for a fair presentation have been included.

Unless otherwise noted, financial results are being reported in accordance with, IAS 34, Interim Financial Reporting of International Financial Reporting Standards ("IFRS"). Further details are included in the Notes of the condensed consolidated interim financial statements for the three and six months ended June 30, 2013.

Additional information about the Company is available on SEDAR at www.sedar.com and on the Company's website at www.kazaxmineralsinc.com.

## Description of Business

The Company was incorporated under the Business Corporations Act of British Columbia on September 12, 2005 and was initially classified as a Capital Pool Company ("CPC") as defined by Policy 2.4 of the TSX Venture Exchange (the "TSX").

On March 12, 2010, the Company completed its Qualifying Transaction ("QT") as defined by the policies of the TSX and emerged from being a CPC to a Tier 2 listed mining issuer on the TSX.

## Overall Performance

In December 2011, the Company entered into a share purchase agreement (the "SPA") with Safin Element GmbH. ("Safin"), a private Austrian company, to acquire 99.9% of Safin's beneficial interest (the "Interest") in Lomonosovskoye Limited Liability Partnership (the "LLLP") (the "Transaction"). Pursuant to a contract between the LP and the Ministry of Industry and New Technologies of Kazakhstan dated March 20, 2009 and as amended on July 31, 2009 and December 28, 2010 (the "Subsoil Use Contract"), LLLP holds unrestricted exploration and production rights to the Lomonosovskoye deposit (the "Deposit" or "Project"), located in Kostanay Oblast, Kazakhstan.

To partially finance the payments required under the SPA and to carry out confirmation work on the Project, in March 2012, the Company completed a private placement financing for gross proceeds of CAD$24,885,000 by issuing a total of 124,425,000 securities of the Company comprised of 64,325,000 shares issued at CAD$0.20 per share and 60,100,000 subscription receipts issued at CAD$0.20 per receipt which were converted into one share of the Company on July 16, 2012.

A share commission of 5,000,000 shares was issued to an arms-length party as consideration for arranging a portion of the Financing.

On March 15, 2012, the Company changed its name to KazaX Minerals Inc.

On October 16, 2012, the Company announced a restructuring of the SPA for the purchase of the beneficial interest of LLLP. After the restructuring, the State Agency Tobol would acquire a 25% interest in the Project.

As a result, the value of Kazax's transaction was $53,823,800 (previously $75,483,200) after the revised terms. See terms of the SPA transaction below for more details.

On February 14, 2013, outstanding Share Purchase Warrants of 4,416,667 shares with an exercise price $0.12 per share were exercised in full for total proceeds of $530,000.

On February 15, 2013, the Company completed the acquisition of a 74.99% interest in LLLP from Safin . LLLP and made the initial SPA payments of $6,933,784 in cash and issued 23,076,000 shares equal to $4,615,200 at a deemed value of $0.20 per share. Following the cash payment and share issuance, the Company made Capital Gains Tax (CGT) payment of $2,038,056 to the Kazakhstan tax authorities in April 11, 2013.

On February 20, 2013, the Company announced the intention to complete a non-brokered private placement (the "Private Placement") for up to $12,000,000 in aggregate principal amount of convertible unsecured non-interest bearing debentures (the "Debentures") subject to the approval of the TSX Venture Exchange. The Debentures will be direct, unsecured obligations of the Company, ranking equally with all other unsecured indebtedness of the Company. The proceeds of the Private Placement will be used for general working capital purposes. $6,169,563 has been received to date and the Private Placement offer will be expected to close by July 31, 2013.

See terms of the Private Placement below under Financing Activities.

On February 22, 2013, the Company announced the appointment of KPMG LLP as the auditors of the company following the resignation of Manning Elliott LLP.

On February 25, 2013, the Company announced the change in year end from March 31 to December 31 to correlate with the year-end of LLLP.

On May 28, 2013, the Company issued 13,086,971 common shares to Safin at a price of CAD$0.275 per common share as partial consideration for 75% of the issued and outstanding shares of LLLP pursuant to the terms of the SPA. As a result, Safin has direct ownership and direction or control over 36,162,971 common shares of the Company, representing approximately 20.23% of the issued and outstanding common shares. Total issued and outstanding common shares as at June 30, 2013 are 178,787,971.

## Change in Accounting Policies including Initial Adoption

The Company changed its functional and presentation currency from Canadian Dollars ("CAD") to USD effective January 1, 2013. The change in functional currency was based on Management's judgement that with the acquisition of the Lomonosovskoye Project during the three months ended March 31, 2013, the currency of the primary economic environment in which the Company operates is now the USD. Major investing activity and any revenues of the Company are now denominated in USD. The change in functional and presentation currency has been performed on a prospective basis with all comparatives amounts translated at the closing rate on January 1, 2013 of USD 1: CAD 0.9967.

A number of new accounting standards, amendments to standards and interpretations became effective and were adopted by the Group on January 1, 2013. Those which may be relevant to the Group are set out below. None of these new standards had a significant impact on the consolidated financial statements of the Group.

- IFRS 9 *Financial Instruments*
- IFRS 10 *Consolidated Financial Statements*, IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*
- IFRS 13 *Fair Value Measurement*
- IAS 19 *Employee Benefits*
- IFRIC 20 *Stripping Costs in the Production Phase of a Surface Mine.*

## Lomonosovskoye Deposit

The Deposit is located in the northwest corner of the Republic of Kazakhstan in the Kostanay Region, 618km northwest of the country's capital of Astana and 50km west-southwest of the regional capital of Kostanay.

The iron deposit, along with a number of significant magnetite deposits, occurs in the Turgai belt of the regional Valerianovskoe magmatic arc in northern Kazakhstan. The magnetite deposits of the Valerianovskoe magmatic arc are hosted by andesitic volcanics, pyroclastics, and intercalated sediments and carbonates of the Valerianovo supergroup. Large gabbro-diorite-granodiorite igneous bodies of the Sarbai-Sokolovsk and Sulukolskaya complexes are related to the mineralization, with granitic facies interpreted as having been intruded from Mid-Visean to Permian period. In some deposits, the host sedimentary sequence is cross cut by post-ore dioritic porphyry. The Palaeozoic units of the Turgai belt in Kazakhstan are entirely covered by Mesozoic to Cainozoic sediments which are from 40 to 180 m in thickness.

The Deposit comprises two deposit sites: the North-Western ("NW") deposit and Central deposit, which differ in geological structure, genesis and composition. Although they are located within 1 km of each other, they are considered as individual deposits being separated by a diorite intrusion. Historical work to date has outlined skarn iron mineralization at the NW Deposit and the Central Deposit beneath 100m of overburden and extending to 1400m depth in the NW Deposit, and some 900m at Central. The mineralization outlined by the historical drilling has not been closed off at depth at the NW Deposit and may be open at Central.

A technical report dated December 19, 2012 prepared by Mining Associates Pty Ltd. of Australia with respect to the Deposit and compliant with NI 43-101 has been completed and was filed under the Company's profile on SEDAR on May 9, 2013. The Report provides a resource estimate for the Lomonosovskoye Project as at December 2012 as outlined below, above a cut-off grade of 20% Fe:

| Class | M Tonnes | Fe % | P % | S % | FeM % |
|---|---|---|---|---|---|
| Measured | 7.6 | 29.8 | 0.5 | 3.3 | 19.7 |
| Indicated | 325.9 | 36.76 | 0.2 | 3.5 | 27.8 |
| **Measured & Indicated** | **333.5** | **36.6** | **0.2** | **3.5** | **27.6** |
| Inferred | 108.7 | 34.8 | 0.3 | 4.5 | 25.9 |

Mr. Andrew Vigar, BCppSc, FAusIMM, MSEG, of Mining Associates Limited, a Qualified Person as defined by NI 43-101, prepared the scientific and technical information in this news release. Mr. Vigar is an independent technical consultant to the Company.

**Kazakhstan**

From Kazakhstan's independence from the Soviet Union over 20 years ago, President Nursultan Nazarbayev, with the assistance of Prime Minster Serik Akhmetov, have played proactive roles in modernizing and transforming the country into a dynamic independent state.

**Terms of the SPA Transaction**

The payment terms below are the revised terms as announced October 16, 2012 and subsequently amended July 1, 2013 (see subsequent events).

The first payment is $13,587,040 comprising a cash payment of $6,933,784, $2,038,056 in CGT payments and that number of shares of the Company equal to dividing the sum of $4,615,200 by CAD$0.20 per share (the "First Installment"), was paid to Safin on the closing of the Transaction. As at the date of this MD&A, the Company has made the first payment in full.

The second installment is the sum of $18,800,480 comprising cash payments, aggregating of $15,230,480 (including CGT payments) and that number of common shares of the Company equal to dividing the sum of $3,570,000 by 100% of the volume weighted average trading price of the Company's share for the five consecutive trading days ending on the trading day preceding the date the Company issues the shares to Safin (the "Second Installment").

The third installment is the sum of $18,800,480 comprising cash payments, aggregating of $15,230,480 (including CGT payments) and that number of common shares of the Company equal to dividing the sum of $3,570,000 by 100% of the volume weighted average trading price of the Company's share for the five consecutive trading days ending on the trading day preceding the date the Company issues the shares to Safin (the "Third Installment").

The second installment cash payments by the Group to the seller aggregating $15,230,480 (including CGT on behalf of the seller of a total of $2,820,072) will be paid over two installment payments. The first installment of which shall be $2,300,000 (including CGT paid on behalf of the seller to the Kazakhstan tax authorities as and when it falls due) paid to the seller on or before September 30, 2013 and the remaining $12,930,480 (including CGT paid on behalf of the seller to the Kazakhstan tax authorities as and when it falls due) shall be paid to the seller on or before January 15, 2014.

The third installment of cash payments is due quarterly during the year 2014. The second installment of issuance of shares was made on May 28, 2013 and the third installment issuance of shares will be made within the year.

In the event the Company does not make the second or third installment cash payments to the seller, in full or in part, in accordance with the terms and in the manner set out in this Agreement than the Company is required to transfer back to Safin the unpaid portion of its interest in LLLP on a pro rata basis.

The Company has agreed to pay a finder's fee of $2,635,800 (the "Finder's Fee") to an arm's length party (the "Finder") in connection with the Acquisition. The Finder's Fee is payable in three installments as follows:

1. an initial payment of $703,800 (paid)

2. $966,000, payable on or before July 31, 2013; and

3. $966,000, payable on or before December 31, 2014

## Financing Activities

On February 20, 2013, the Company announced the intention to complete a non-brokered private placement (the "Private Placement") for up to CAD$12,000,000 in aggregate principal amount of convertible unsecured non-interest bearing debentures (the "Debentures") subject to the approval of the TSX Venture Exchange. The Debentures are to be direct, unsecured obligations of the Company, ranking equally with all other unsecured indebtedness of the Company.

The Debentures will mature and become payable on the date that is three years from the date of issuance (the "Maturity Date"). Upon receipt of all necessary approvals from the Kazakhstan Ministry of Industry and New Technologies ("MINT") for the conversion of the Debentures, the principal amount of the Debentures will be convertible on or before the Maturity Date, at the option of the holder, into units of the Company (the "Units") at a conversion price of CAD$0.285 per Unit.

Each Unit will be comprised of one common share (a "Share") of the Company, and one-half of one share purchase warrant (a "Warrant") with each whole Warrant exercisable to purchase an additional Share (a "Warrant Share") for a period of three years from the date of issuance of the Debentures at an exercise price of CAD$0.35 per share. In the event that the closing price of the common shares of the Company on TSX Venture Exchange is equal to or exceeds CAD$1.00 for a period of 10 consecutive trading days (the "Acceleration Event"), the Warrants will expire on the date which is 90 calendar days after the Company provides notice to the holders of the Warrants that the Acceleration Event has occurred.

The Debentures, and any Shares, Warrants or Warrant Shares issued upon conversion of the Debentures will be subject to a hold period expiring four months and one day from the date the Debentures are issued. The proceeds of the Private Placement will be used for general working capital purposes. $6,169,563 has been received to date and the Company expects to close after obtaining the necessary approvals of the TSX Venture Exchange.

## Selected Financial Information

The following selected financial information is derived from the unaudited condensed consolidated interim financial statements for the three and six months ended June 30, 2013 and audited consolidated financial statements of the Company for the nine months ended December 31, 2012 which are prepared in accordance with IFRS. Comparative figures for the nine months ended and as at December 31, 2012 are translated to USD at the exchange rate on January 1, 2013.

| | Six months Ended June 30, 2013 | Three months Ended March 31, 2013 | Nine months Ended December 31, 2012 |
|---|---|---|---|
| **Revenue** | $ - | $ - | $ - |
| **Net Loss** | 3,424,888 | 2,796,874 | 7,903,297 |
| **Total Assets** | 41,630,008 | 41,857,146 | 13,482,228 |
| **Total Liabilities** | 22,205,865 | 25,403,906 | 1,335,275 |
| **Shareholders' Equity** | 19,424,143 | 16,453,240 | 12,146,953 |

## Summary of Quarterly Results

The following table sets forth a comparison of revenues and earnings for the previous eight quarters. Comparative figures have been translated to USD from CAD at the exchange rate on December 31, 2012.

| Quarter ending | Jun 2013 | Mar 2013 | Dec 2012 | Sep 2012 | Jun 2012 | Mar 2012 | Dec 2011 | Sep 2011 |
|---|---|---|---|---|---|---|---|---|
| **Revenue** | $ - | $ - | $ - | $ - | $ - | $ - | $ - | $ - |
| **Capital Exp** | - | - | - | - | - | - | - | - |
| **Net Loss** | (628,014) | (2,796,874) | (2,439,075) | (3,572,181) | (1,892,041) | (5,304,129) | (25,141) | (37,489) |
| **Net Loss per Share** | (0.00) | (0.02) | (0.02) | (0.03) | (0.02) | (0.39) | (0.00) | (0.00) |

The increase in the net loss commencing with the quarter ending March 31, 2012 as compared to prior quarters, was due to the commencement of funding of the costs on the Project, and variations since then have been due to the different levels of operational activity related to the Project from quarter to quarter. The decrease in net loss commencing with the quarter ending June 30, 2013 as compared to the preceding 5 quarters was due to the Company capitalizing expenses subsequent to the completion of the acquisition of LLLP on February 15, 2013. As of June 30, 2013, the Company had capitalized $6,316,153 in project expenditures and $471,881 in management fees (For the quarter ended March 31, 2013, $1,393,598 and $123,428 respectively).

## Financial Results of Operations – six months period ended June 30, 2013

During the six months period ended June 30, 2013, the Company's efforts were focused on advancing the feasibility study for the Project which is expected to be completed in August 2013. Key achievements include:

a. Continuation of the confirmation drilling program and associated geo-assay test-work (under the supervision of an independent QP).

b. Development of the open pit mine plan.

c. Development of the beneficiation plant engineering.

d. Pre project engineering and approvals for Infrastructure connections including Power, Water, Rail and obtaining technical conditions for these connections and off takes from the relevant authorities.

e. Completed acquisition of 75% interest in the Project with the requisite approvals of the competent authorities within Kazakhstan following the closing of the SPA.

f. Updated technical report dated December 18, 2012 prepared by Mining Associates Pty Ltd. of Australia (“Mining Associates”). A further update was obtained on May 9, 2013 prepared by Mining Associates to clarify the technical disclosures as required by the British Columbia Securities Commission (“BCSC”).

g. Completion and further updates to the Project Financial Model.

h. Setting up of an online data room to facilitate due diligence work by financial institutions and potential investors.

i. Ongoing discussions with potential off-takers and key equipment suppliers within Kazakhstan, China and the Commonwealth of Independent States (CIS).

j. Discussions with mining contractors for possible financing option for the fleet used for the project.

k. Ongoing discussions with financial institutions for financing with focus on short term financing. We have received term sheets for indication of pricing and terms.

l. Running of a tender process with EPC companies for the construction of the beneficiation plant.

m. Further funding obtained from shareholders following the Private Placement announcement in February 2013.

n. Restructuring of the SPA scheduled payments with Safin.

During the six months period ended June 30, 2013, the Company incurred a net loss of $3,424,888 compared to $7,196,170 for the six months ended June 30, 2012 (the “previous year”).

Project development expenditures of $8,374,324 ($6,316,153 was capitalised post acquisition for the six months period ended 30 June, 2013) were incurred in the six months period ended June 30, 2013 compared to $6,108,069 in the previous year as a result of the expenditures for the Project.

Office expenses increased to $163,421 for the six months period ended June 30, 2013 compared to $122,657 in the previous year due to higher headcount at the Vancouver office. Insurance costs were $23,307 compared to $17,604 for the same period last year. The current period included higher consulting fees of $67,636 related to investor relations compared to $56,838 in the previous year. Consulting fees are recorded as a negative expense of $9,187 in the three month quarter ended June 30, 2013 due to a reversal of over-accruals of $30,020. Wages and benefits increased to $146,086 which mainly relates to increase in staff head count at the Vancouver office compared to $6,899 in the previous year. Wages and benefits were recorded as a negative expense of $73,838 due to a reversal of bonus accruals which are no longer required of $137,085. The recording of $9,001 in wages and benefits instead of $146,086 for the six months period ended June 30, 2013 is due to the reversal of bonus accruals. Accounting, audit and legal fees increased to $206,367 compared to $132,518 in the same period last year.

The Group made a foreign exchange gain of $134,280 in the three months quarter ended June 30, 2013 for a total net gain of $1,514 for the six months period ended June 30, 2013 compared to a foreign exchange gain of $18,985 in the previous year. The gain in the last three months is due to a 1.6% foreign exchange gain on its CAD deposits from the shareholder advances received at the end of March 2013 of a total of $5,464,162 (see Note 14 in the Notes to the Condensed Consolidated Interim Financial Statements). The Company converted the CAD deposits to USD during the first week of May to realize a net foreign exchange gain of $64,677. The Company also recorded unrealized foreign exchange gains on its AUD denominated accounts payable and accrued liabilities with the USD gaining 14% against the AUD in the three month period ending June 30, 2013. Total net revaluation gain on foreign currency accounts payable and accrued liabilities amounted to $69,603.

The management fee charged by Stonehouse Construction Pte. Ltd. ("SCHS") is higher at $799,602 ($471,881 was capitalized post acquisition for the six months period ending June 30, 2013) compared to $149,358 in the previous year consistent with the higher overall spend on the project in the six months period ended June 30, 2013. Travel and entertainment increased to $400,949 compared to $166,057 in the previous year due to the increase in travelling between project offices by the management and the board members.

Cash used in operations and investing activities during the six months period ended June 30, 2013 was $16,371,976 compared to $6,431,544 in the previous year. The increase was mainly due to the initial payment made in the acquisition of LLLP and finder's fee.

## Liquidity and Capital Resources

As at June 30, 2013, the Company had a working capital deficit of $18,596,299 (December 31, 2012 – a surplus of $10,531,536) including cash and cash equivalents of $253,147 (December 31, 2012 - $10,634,460), accounts receivable of $612,033 (December 31, 2012 - $739,227), amounts due from related parties of $Nil (December 31, 2012 - $493,124) and current liabilities of $19,461,479 (December 31, 2012 - $1,335,275). Current and non-current liabilities increased due to the liabilities based on the terms of the SPA following the completion of the acquisition of LLLP.

The Company will require additional funds to advance the Project to production. The Company expects to obtain financing in the future primarily through further equity and/or debt financing. There can be no assurance that the Company will succeed in obtaining financing in the future. Failure to raise additional financing on a timely basis could cause the Company to suspend its operation and eventually to forfeit or sell its interest in its mineral properties. Further financing has been obtained as disclosed in the subsequent event note and the Company will continue to obtain further financing in the next period.

## Credit Facilities

The Company has no credit facility outstanding as at June 30, 2013.

## Contractual Obligations

The Company is committed to pay cash and to issue shares in connection with the Project as described in the Terms of the SPA.

## Off Balance Sheet Arrangements

As at June 30, 2013, the Company had no off-balance sheet arrangements.

## Proposed Transactions

There are currently no proposed transactions, except as otherwise disclosed in this MD&A (see subsequent events). Confidentiality agreements may be entered into from time to time, with independent entities to allow for discussions of the potential acquisition and or development of certain properties.

## Key changes in Company Personnel

In the three and six months period ended June 30, 2013, there were no changes to key Company Personnel. (See subsequent events for changes post period ended June 30, 2013).

## Subsequent Events

(a) Change of terms to the SPA Payments

On July 1, 2013, the Group entered into an amendment agreement with Safin (the “seller”), to amend the terms of Milestone Payment Two (the “first installment cash payments”) and the Third Installment Consideration Shares (the “third share issuance”). The second installment cash payments to the seller of an aggregate of $12,410,408 of which $6,205,204 was due and payable on June 30, 2013; a further two installments of $3,102,602 payable on September 30, 2013 and December 31, 2013 respectively and the third share issuance on June 30, 2013 are now amended as follows:-

- $2,000,000 shall be paid to the seller on or before September 30, 2013
- remaining $10,410,408 shall be paid to the seller on or before January 15, 2014
- the third share issuance of $3,570,000 at a price per common share equal to the volume weighted average price at which the common shares of the Company trade on the Exchange for the five trading days prior to issuance to be issuable within the year
- capital gains tax (“CGT”) of a total of $2,820,072 withheld with respect to the cash payments and share issuance will be made on behalf of the seller to the tax authorities following each scheduled payment above

There are no changes to Milestone Payment Three (the “second installment cash payments”) which consists of the aggregate cash payment of $15,230,480 (including CGT which shall be paid to the Kazakhstan tax authorities on behalf of the seller as and when it falls due).to the seller, payable quarterly during 2014 in four equal installments, each installment of $3,807,620 paid no later than the last day of the third month of each quarter.

(b) Amendments to the Finder’s Fee agreement funds

On July 1, 2013; following the amendment to the SPA, the Group entered into an amendment agreement to pay the second installment of the Finder's Fee of $966,000 to an arm's length party (the "Finder") in connection with the Acquisition on or before July 31, 2013. The third installment of the Finder's Fee of $966,000 will be on or before December 31, 2014.

(c) Receipt of Private Placement funds

On July 5, 2013, the Group received CAD$734,792 ($705,401) advances from shareholders as part of the Private Placement announced on February 20, 2013. See note 14 to the unaudited condensed consolidated interim financial statements for the three and six months period ended June 30, 2013 for further information on the private placement. The Private Placement will be closed after obtaining the necessary approvals of the TSX Venture Exchange. A total of $6,169,563 has been received to date.

(d) Termination of the Alliance Agreement dated February, 2012 and entering into a consulting contract with Stonehouse Construction Pte Ltd. ("SHCS")

On July 15$^{th}$, 2013, the Company entered into a Termination Deed with SHCS, a related party described in Note 16, to terminate the Alliance Agreement dated February, 2012 entered between the Group and SHCS to manage the Lomonosovskoye Project (Note 6 and 16) and agreed to pay SHCS amounting to $348,453 in respect of all amounts due to SHCS to June 30, 2013.

On the same date, the Group entered into consulting agreement with SHCS to provide financial, technical, administrative and other advice with respect to the ongoing development of the Lomonosovskoye Iron Ore Project for a monthly retainer fee of $120,000 for July and $70,000 per month thereafter. The agreement can be terminated by either party giving one month notice.

(e) Change of Directors and Management of the Company

With effect from July 15, 2013, Trevor Campbell Smith replaces David Savage as Chief Executive Officer and President of the Company.

With effect from July 15, 2013, Riad Al Sadik replaces Dan Kunz as Chairman of the Board of Directors of the Company.

(f) Incentive Stock Options

The Company announces the granting of incentive stock options to Trevor Campbell Smith to purchase up to 4,000,000 common shares at a price of $0.145 per share, subject to receipt of approval from the Ministry of Industry and New Technologies of Kazakhstan. The options vest quarterly over nine months and are exercisable until July 13, 2014.

## Related Party Transactions

The Company has incurred costs with Stonehouse Construction Pte. Ltd. and companies controlled by it (collectively "SHCS") to manage the Project described in Note 6. SCHS has officers, directors and shareholders in common with the Company. A fee of 10% of expenditures incurred on the Project, (the "Fee") has been charged to the Company by SHCS. SHCS has charged $327,628 and $799,602 for three and six months ended 30 June 2013 (three and six months ended June 30, 2012;- $149,358) for the Fee, which is included in the statement of operations prior to completion of the Acquisition and capitalised in Exploration and Evaluation assets after the completion of the Acquisition.

Included in accounts payable and accrued liabilities is $348,453 as at June 30, 2013 (December 31, 2012 - $973,657) due to SHCS. The amounts accrued are the Fees outstanding and billed by SHCS during the period.

The Company has provided advances to SHCS for the funding of Project expenditures of $Nil as at June 30, 2013 (December 31, 2012 - $493,124).

The key management of the Company comprises of officers and directors with remuneration as follows:

| | | Six months ended June 30, 2013 | | Six months ended June 30, 2012 |
|---|---|---|---|---|
| Remuneration and short-term benefits | $ | 471,408 | $ | 85,258 |
| Directors fees | | 44,677 | | - |
| | $ | 516,085 | $ | 85,258 |

The above transactions, occur in the normal course of operations and are measured at the exchange amount, which is the consideration established and agreed to by the related parties.

## Outstanding Share Data

**Common shares outstanding as at June 30, 2013**

| | Number of Shares |
|---|---|
| Issued and outstanding | 178,787,971 |
| Warrants outstanding | – |
| Stock options outstanding | – |
| Fully diluted at June 30, 2013 | 178,987,971 |

The first 1,100,000 shares issued to founders were subject to an escrow agreement. Pursuant to the escrow agreement, 10% of the escrowed shares were released upon receipt of the Final Exchange Bulletin (the "Initial Release") issued by the TSX signifying the acceptance of a "qualifying transaction" and 15% will be released every six months thereafter for a period of thirty-six months. The balance of shares held in escrow at December 31, 2012 is 165,000. On the date of this report it is nil. This last tranche was released on March 12, 2013.

## Financial Instruments and Other Instruments

As at June 30, 2013, the Company holds cash and cash equivalents, receivables, due from/(to) related parties, accounts payable and other SPA related liabilities. The Company is not exposed to derivative financial instruments. It is management's opinion that the Company is not exposed to significant interest and currency risks arising from its financial instruments and their fair values approximate their carrying values. Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash. To minimize the credit risk the Company places these instruments with high credit quality financial institutions.

**Risks and Uncertainties**

The Company's principal activity is mine development and production. As such, the Company is exposed to a number of risks, including the financial risks associated with the fact that it has no operating cash flow and must access the capital markets to finance its activities. There can be no assurances the Company will continue to be able to access the capital markets for the funding necessary to develop and maintain its projects and to carry out its desired development programs.

Other risks include, but are not limited to, environmental, fluctuating metal prices, political and economical. Additionally, there are inherent risks with development projects to successfully achieve production due to factors that cannot be predicted or foreseen. While risk management cannot eliminate the impact of all potential risks, the Company strives to manage such risks to the extent possible and practicable.

The Company has a small management team and the loss of a key individual or the inability to attract suitably qualified personnel in the future could materially and adversely affect the Company's business.

Although the Company has taken steps to verify the title to its Project, in accordance with industry standards for the current stage of development of such properties, these procedures do not guarantee the Company's title.

The Company has no significant source of operating cash flow, no revenues from operations and a significant working capital deficit. The Company has limited financial resources. Substantial expenditures are required to be made by the Company to establish ore reserves. The Company's mineral properties are in the development stage only, and have no ongoing mining operations.

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mine development activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company. The risks and uncertainties described in this section are not inclusive of all the risks and uncertainties the Company may be subject to.

The Company will be subject to normal market risks including fluctuations in foreign exchange rates. While the Company expects to manage its operations in order to minimize exposure to these risks, the Company has not entered into any derivatives or contracts to hedge or otherwise mitigate this exposure.

**Forward Looking Statements**

This report contains forward-looking statements and forward-looking information within the meaning of applicable securities laws. The use of any of the words "expect", "anticipate", "continue", "estimate", "objective", "ongoing", "may", "will", "project", "should", "schedule", "believe", "plans", "intends" and similar expressions are intended to identify forward-looking information or statements. More particularly and without limitation, this management's discussion and analysis contains forward looking statements and information concerning the Company's future operations and prospects, including the closing of its private placement of convertible debentures and the completion of its acquisition of the Lomonosovskoye project. The forward-looking statements and information are based on certain key expectations and assumptions made by the Company, including expectations and assumptions concerning the Company's ability to satisfy the closing conditions to the private placement of convertible debentures, the Company's ability to compute its obligations under the SPA, equipment and crew availability, and joint venture partner financial capability. Although the Company believes that the expectations and assumptions on which such forward-looking statements and information are based are reasonable, undue reliance should not be placed on the forward looking statements and information because the Company can give no assurance that they will prove to be correct. By its nature, such forward-looking information is subject to various risks and uncertainties, which could cause the Company's actual results and experience to differ materially from the anticipated results or expectations expressed. These risks and uncertainties include, but are not limited to, reservoir performance, labour, equipment and material costs, access to capital markets, interest and currency exchange rates, and political and economic conditions. Additional information on these and other factors is available in continuous disclosure materials filed by the Company with Canadian securities regulators. Readers are cautioned not to place undue reliance on this forward-looking information, which is given as of the date it is expressed in this news release or otherwise, and to not use future-oriented information or financial outlooks for anything other than their intended purpose. The Company undertakes no obligation to update publicly or revise any forward-looking information, whether as a result of new information, future events or otherwise, except as required by law.