

# **Management's Discussion and Analysis**

**For the year ended December 31, 2013**



**March 12, 2014**

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Oracle Mining Corp.

## Management's Discussion and Analysis

For the year ended December 31, 2013

All figures reported in US Dollars, unless otherwise noted

This management's discussion and analysis of financial conditions and results of operations (the "MD&A"), has been prepared by management and provides a review of the activities, results of operations and financial condition of Oracle Mining Corp. and its subsidiaries. In this MD&A, the terms the "Company", "Oracle Mining", "we", "our", and "us" refer to the consolidated operations of Oracle Mining Corp. and our subsidiaries unless otherwise specifically noted or the context requires otherwise.

The information in this MD&A is as of March 12, 2014 and complements and supplements the Company's audited consolidated financial statements and associated notes for the years ended December 31, 2013 and 2012 ("consolidated financial statements"). All financial information in this MD&A is prepared in accordance with International Financial Reporting Standards ("IFRS") and reported in United States dollars, unless otherwise noted. See note 12 of our consolidated financial statements for information about the effect of changes in foreign exchange rates.

Additional information about the Company, including the Company's annual information form dated April 1, 2013, is available under the Company's profile on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.oracleminingcorp.com](http://www.oracleminingcorp.com).

### Forward Looking Information

*Information and statements contained in this MD&A that are not historical facts are "forward-looking information" within the meaning of Canadian securities legislation that involve risks and uncertainties. Forward-looking information included herein is made as of the date of this MD&A and Oracle Mining does not intend, and does not assume any obligation, to update forward-looking information unless required by applicable securities laws. Forward-looking information relates to future events or future performance and reflect management of the Company's expectations or beliefs regarding future events.*

*In certain cases, forward-looking information can be identified by the use of words such as "plans", "expects" or "does not expect", "is expected", "budget", "scheduled", "estimates", "forecasts", "intends", "anticipates" or "does not anticipate", or "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 of these terms or comparable terminology. Examples of forward-looking information in this document include, but are not limited to, statements with respect to: the updated mineral resource estimate for the Oracle Ridge project; our plans and expectations for the Oracle Ridge project; the timing or completion of any work on the Oracle Ridge project, including the timing, plans and budget of our proposed 2014 infill and expansion drilling program; our belief that we have created a growth-orientated metals corporation; the potential for us to implement our growth strategy goals; the potential to use the lands adjacent to the project as a future tailings facility; our expectations regarding the use of our historical database and the 2013 drilling data; confirmation regarding the accuracy of the historical database; our ability to incorporate Project Development Studies (defined below) into a future feasibility study, if any; our plans for advancing permitting and regulatory requirements related to any such plans; our Outlook in section 4 of this MD&A, including our ability to complete the specific objectives set forth therein and to obtain the financing necessary to complete such objectives; the potential for us to enter into a loan agreement with Credit Suisse AG on the terms contemplated or at all; our need to obtain funding, including anticipated timing of the proposed instalments under the Loan Facility (defined below) with Rich Stone*

*(defined below); and our belief that we will be successful in the outcome of our lawsuit alleging breach of contract. This forward-looking information is based, in part, on assumptions and factors that may change or prove to be incorrect, thus causing actual results, performance or achievements to be materially different from those expressed or implied by forward-looking information. Such factors and assumptions include, but are not limited to: our assumptions regarding copper, base metal and precious metal prices; accuracy of the updated Mineral Resource estimate and Mineral Resource modelling; accuracy of cut-off grade and assumptions underlying thereto, including projected copper prices and estimates of total operating costs; dilution allowance assumptions; the success of drill programs; reliability of drilling, sampling and assay data; representativeness of mineralization, accuracy of metallurgical testwork and preliminary process design work; and our ability to comply with current and future environmental, safety and other regulatory requirements and to obtain and maintain timely receipt of regulatory approvals; our ability to successfully raise capital and the successful outcome of our litigation described in section 6 of this MD&A.*

*By its very nature, forward-looking information involves 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 forward-looking information. Such factors include, but are not limited to: risks related to the uncertainty of our exploration and development efforts; risks relating to estimates of Mineral Resources and cut-off grade and factors underlying, proving to be inaccurate; risk that we are unable to enforce our legal rights under existing agreements, permits or licences or are subject to litigation or arbitration that has an adverse outcome, including our litigation described in section 6 of this MD&A; risk there are changes in project parameters as plans continue to be refined; risks related to the uncertainty of timing of events; fluctuation in copper, base metal and precious metal prices; risk that we cannot obtain or maintain necessary permits or approvals from governmental authorities; we are affected by environmental, safety and regulatory risks, including increased regulatory burdens or delays, accidents, labour disputes and other risks inherent in the mining industry; delays in obtaining governmental approvals or financing or in the completion of Project Development Studies, as well as those factors discussed in the section entitled "Risks and Uncertainties" in this MD&A and discussed in the Company's annual information form dated April 1, 2013, for the year ended December 31, 2012, filed and available for review on SEDAR at [www.sedar.com](http://www.sedar.com). Although the Company has attempted to identify important factors that could cause actual actions, events or results to differ materially from forward-looking information, there may be other factors that cause actions, events or results not to be as anticipated, estimated or intended. There can be no assurance that forward-looking information will prove to be accurate, as actual results and future events could differ materially from those anticipated by such forward-looking information. Accordingly, readers should not place undue reliance on forward-looking information.*

## **1. COMPANY OVERVIEW**

Oracle Mining is an exploration and development stage company existing under the *Canada Business Corporations Act*. We are a reporting issuer in British Columbia, Alberta, Ontario and Quebec, and since January 13, 2012 our common shares have been listed on the Toronto Stock Exchange under the trading symbol "OMN". Prior to commencing trading on the Toronto Stock Exchange, our common shares were listed on the TSX Venture Exchange. The Company is involved in the acquisition, exploration, development and advancement of mineral resource projects.

Our primary focus is to return our principal property, the Oracle Ridge copper project ("Oracle Ridge" or the "Project"), located northeast of Tucson, Arizona, U.S.A., back into production. Before we acquired Oracle Ridge, it was a producing underground copper mine from 1991

through 1996, with approximately 17 kilometres of workings. References herein to the "Oracle Ridge Mine" or the "Mine" are historical references to the former producing copper mine.

We also own a 640 hectare mining concession at the Barry-Souart property northeast of Val d'Or in the Province of Quebec, which we optioned to a third party in June 2012.

## **2. ORACLE RIDGE PROJECT ACTIVITIES**

We believe that our acquisition of Oracle Ridge has created a growth-oriented metals corporation and our goal to return Oracle Ridge into production is an important step in our growth strategy to expand our Company.

The 100% owned Oracle Ridge project is located in the Santa Catalina Mountains northeast of Tucson, Arizona, and is the site of the previously operated Oracle Ridge Copper Mine. The Oracle Ridge project is comprised of 57 patented mining claims in 13 parcels, covering approximately 900 acres, in the Old Hat Mining District at Marble Peak (the "Mineral Rights"). The Mineral Rights are held by our indirect, wholly-owned subsidiary, Oracle Ridge Mining, LLC. Ownership of the Mineral Rights will revert to the previous owner in the year 2025; provided however, the Company has an option to extend its interest in the Mineral Rights to 2040 upon payment of additional consideration. We acquired surface rights in connection with the Mineral Rights pursuant to the terms of a surface lease. In addition, the Company has acquired 353 acres of existing tailings and adjacent property that it may use as a future tailings facility.

The surface rights for the area necessary for mining access, processing facilities and offices are secured by an industrial property lease dated February 18, 2010 between Oracle Ridge Mining LLC and Marble Mountain Ventures LLC, as amended from time to time (the "Lease"), which Lease includes the Daily 5, Sphinx, Oversight, Golden Peak, Copper Peak, York, Apache Central and Copper Princess patented mining claims. Under the Lease, Oracle Ridge Mining LLC leases from Marble Mountain Ventures LLC the surface rights to Oracle Ridge for the purpose of carrying out its exploration, development and mining of the Oracle Ridge project. The Lease had an initial term of three years beginning February 2010 and is renewable at the option of the Company for nine additional extensions of three years each. The second lease term began February 2013 wherein the Company paid lease payments of \$150,000 in 2013 and \$152,250 in 2014. Future payments required to renew the Lease are \$150,000 per annum plus inflation adjustments.

The Oracle Ridge project area is a roof pendent of predominantly Paleozoic carbonate sedimentary rocks surrounded by the Leatherman Granodiorite intrusive. The emplacement of the intrusive resulted in alteration of the carbonate rocks to skarn and introduction of sulphide copper mineralization. Skarn mineralization at the Oracle Ridge project consists of copper and magnetite along with bi-product gold and silver mineralization. Copper grades in excess of 15% have been reported. Magnetite when present can be as high as 60%, however, historically no attempt to recover the iron has been documented. Gold and silver have historically been recovered in the copper concentrate. The Project hosts at least twelve known zones containing multiple beds of primary copper skarn mineralization. During previous operations, gold and silver were produced from the Mine as by-products.

### **Surface and Underground Drilling**

During 2013, the Company continued an underground drill program at the Oracle Ridge project. Below is a summary of project drilling to December 31, 2013:

Period	Footage (ft)	Number of Holes
Fourth quarter 2013	3,793	8
Year to date 2013	16,697	36
Total drilling to date	71,449	128

In 2013, the Company incurred total drilling costs of \$1.1 million compared with the drilling budget outlined in the technical report filed April 1, 2013 (the "2013 Technical Report") of \$5.5 million. The main difference in the costs was due to the Company focusing its drilling efforts on twinning historical holes and re-assaying historical drill core to provide additional information on historical assay data rather than on expanding the Mineral Resource estimate. The budgeted drill program was for 30,000 feet and the Company completed drilling of 16,697 feet in 2013. The budget also provided for underground rehabilitation work of \$2.7 million relating to areas of expansion drilling that the Company did not complete in 2013.

The 2013 drilling data are being used or are expected to be used, in the following studies:

- Historical drilling validation;
- Specific gravity estimates;
- Mineral Resource definition;
- Geotechnical studies to support underground engineering;
- Metallurgical samples for process flowsheet design; and,
- Geochemical samples for environmental testing.

The historical drilling database for the Project consists of 485 drill holes totaling more than 180,432 feet of drilling.

The Company maintains a rigorous QA/QC protocol on all aspects of sampling and analytical procedure. Drill core is checked, logged, marked for sampling and sawn in half. The sample size varies depending on the geology and the mineralization. In general, the samples are predominantly about 5 feet long. One-half of each drill core is maintained for future reference and one-half of each drill core is sent for analysis. During 2013, half-core samples were shipped to Skyline Assayer and Laboratories ("Skyline"), in Tucson, Arizona, an ISO/IEC 17025 accredited laboratory. Skyline is contracted to complete all sample preparation and assaying and is independent of Oracle Mining. Samples are analyzed employing acid digestion and Atomic Absorption for analyses of copper, as well as fire assaying for silver and gold. For QA/QC purposes, Oracle Mining inserts standard reference materials and blank samples into each sample batch submitted for assay to monitor laboratory performance. The Company periodically submits the pulps of the samples assayed by its primary lab to ALS Chemex Labs Ltd. in Reno, Nevada for check analysis.

### **Mineral Resource Estimates**

The Company announced its initial Mineral Resource estimate for Oracle Ridge in March 2013, which was included in a technical report filed April 1, 2013 (the "2013 Technical Report"). We have subsequently conducted an underground drill program in the summer of 2013. The results of the 2013 drill program and Mineral Resource estimate announced on February 26, 2014 (as described below) are in the process of being incorporated into an updated technical report.

As recommended in the 2013 Technical Report, Oracle Mining initiated a program of twinning historical holes and re-assaying historical core. Eleven holes were twinned and 66 historical holes were re-logged, photographed and resampled, and submitted to Skyline Assayers and Laboratories for analysis. An analysis of core samples between historical and re-assays identified a bias of 12.5% in the copper grade. Consequently, all historical assay data were

adjusted downward by 12.5%. Additionally, new drilling results obtained since the Oracle Ridge project was acquired in 2010 have been consistently lower than the historical grades, resulting in lowering the overall average grade of the deposit. The new drilling information, the adjustment to historical drilling, along with other adjustments to the mineral resource estimation process have resulted in the loss of tons and overall lower grade compared to the March 2013 Mineral Resource estimate.

In November 2013, Gilles Arseneau PhD, P.Geo., of ARSENEAU Consulting Services was retained to complete an update to our Mineral Resource estimate. Dr. Arseneau is an independent qualified person as defined by NI 43-101. The Company announced its updated Mineral Resource estimate in a news release entitled "Oracle Mining Announces Updated NI 43-101 Resource Estimate for the Oracle Ridge Copper Project" dated February 26, 2014. A copy of this news release is available on SEDAR at [www.sedar.com](http://www.sedar.com).

Table 1 summarizes the combined estimated Measured and Indicated Mineral Resources at various cut-off grades for comparison purposes, with 1.0% copper equivalent ("CuEQ") used as the base case cut-off grade. Measured plus Indicated Mineral Resources at the 1.0% CuEQ base case cut-off grade are estimated to be 7.3 million short tons at 1.61% copper. All tonnages in these tables are in imperial (short) tons.

**Table 1. Oracle Ridge Project Measured and Indicated Mineral Resource Estimate**

Cut-off %CuEQ	Tons Millions	%Cu	Grade			Contained Cu Millions (lb)	Contained Ag Millions (oz)	Contained Au Thousands (oz)
			Ag oz/t	Au oz/t	%CuEQ			
2.00	2.5	2.23	0.66	0.008	2.58	113	1.7	21
1.75	3.7	2.03	0.62	0.008	2.35	151	2.3	29
1.50	5.0	1.87	0.58	0.007	2.17	186	2.9	36
1.25	6.3	1.72	0.55	0.007	2.01	216	3.4	42
<b>1.00</b>	<b>7.3</b>	<b>1.61</b>	<b>0.52</b>	<b>0.006</b>	<b>1.88</b>	<b>236</b>	<b>3.8</b>	<b>47</b>
0.75	8.0	1.53	0.51	0.006	1.80	245	4.0	50

- The effective date of the Mineral Resource estimate is February 26, 2014.
- Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the Mineral Resources will be converted into Mineral Reserves.
- The base case cut-off grade of 1.0% CuEQ has been estimated to ensure reasonable prospects of economic extraction assuming extraction by an underground mining scenario, projected copper price of \$2.80 per pound and estimated total site operating costs of \$45 per ton.
- A selective mining unit of 15 x 15 x 10 feet has been used.
- Mineral Resource tonnage and contained metal have been rounded to reflect the accuracy of the estimate, and numbers may not add due to rounding.
- Silver and gold grade estimates were based on a less comprehensive data set than the copper grade estimates. Where copper grade estimates exist without accompanying silver or gold grade estimates, the drill hole was not used to estimate the silver or gold grade.
- Copper equivalency has been estimated using metal pricing of \$2.80 per pound of copper, \$20 per ounce of silver and \$1,300 per ounce of gold. Metallurgical recovery were derived from preliminary lock cycle test results and assumed to be 81% for gold and silver. The formula used is as follows:  $CuEQ = Cu\% + \{(Ag\ oz/t * \$20 * 0.81) + (Au\ oz/t * \$1,300 * 0.81)\} / \$2.80 / 2,000 * 100$ .

Table 2 summarizes the estimated Measured Resources at various cut-off grades for comparison purposes, with 1.0% CuEQ used as the base case cut-off grade and Table 3 summarises the Indicated Mineral Resources at various cut-off grades for comparison purposes, with 1.0% CuEQ used as the base case cut-off grade.

**Table 2. Oracle Ridge Project Measured Mineral Resource Estimate**

Cut-off %CuEQ	Tons Millions	%Cu	Grade			%CuEQ	Contained Cu	Contained Ag	Contained Au
			Ag oz/t	Au oz/t	Millions (lb)		Millions (oz)	Thousands (oz)	
2.00	0.43	2.11	0.68	0.009	2.47	18	0.29	4	
1.75	0.65	1.94	0.63	0.008	2.27	25	0.41	5	
1.50	0.84	1.80	0.60	0.008	2.12	30	0.50	6	
1.25	1.0	1.69	0.57	0.007	1.99	34	0.58	7	
<b>1.00</b>	<b>1.2</b>	<b>1.59</b>	<b>0.55</b>	<b>0.007</b>	<b>1.88</b>	<b>37</b>	<b>0.64</b>	<b>8</b>	
0.75	1.3	1.51	0.53	0.007	1.79	39	0.68	9	

- The effective date of the Mineral Resource estimate is February 26, 2014.
- Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the Mineral Resources will be converted into Mineral Reserves.
- The base case cut-off grade of 1.0% CuEQ has been estimated to ensure reasonable prospects of economic extraction assuming extraction by an underground mining scenario, projected copper price of \$2.80 per pound and estimated total site operating costs of \$45 per ton.
- A selective mining unit of 15 x 15 x 10 feet has been used.
- Mineral Resource tonnage and contained metal have been rounded to reflect the accuracy of the estimate, and numbers may not add due to rounding.
- Silver and gold grade estimates were based on a less comprehensive data set than the copper grade estimates. Where copper grade estimates exist without accompanying silver or gold grade estimates, the drill hole was not used to estimate the silver or gold grade.
- Copper equivalency has been estimated using metal pricing of \$2.80 per pound of copper, \$20 per ounce of silver and \$1,300 per ounce of gold. Metallurgical recovery were derived from preliminary lock cycle test results and assumed to be 81% for gold and silver. The formula used is as follows:  $CuEQ = Cu\% + \{(Ag\ oz/t * \$20 * 0.81) + (Au\ oz/t * \$1,300 * 0.81)\} / \$2.80 / 2,000 * 100$ .

**Table 3. Oracle Ridge Project Indicated Mineral Resource Estimate**

Cut-off %CuEQ	Tons Millions	%Cu	Grade			%CuEQ	Contained Cu	Contained Ag	Contained Au
			Ag oz/t	Au oz/t	Millions (lb)		Millions (oz)	Thousands (oz)	
2.00	2.1	2.25	0.66	0.008	2.60	95	1.4	17	
1.75	3.1	2.05	0.62	0.008	2.37	126	1.9	23	
1.50	4.1	1.88	0.58	0.007	2.18	156	2.4	29	
1.25	5.2	1.73	0.54	0.007	2.01	182	2.8	35	
<b>1.00</b>	<b>6.1</b>	<b>1.61</b>	<b>0.52</b>	<b>0.006</b>	<b>1.88</b>	<b>199</b>	<b>3.2</b>	<b>38</b>	
0.75	6.7	1.54	0.50	0.006	1.80	207	3.4	41	

- The effective date of the Mineral Resource estimate is February 26, 2014.
- Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the Mineral Resources will be converted into Mineral Reserves.
- The base case cut-off grade of 1.0% CuEQ has been estimated to ensure reasonable prospects of economic extraction assuming extraction by an underground mining scenario, projected copper price of \$2.80 per pound and estimated total site operating costs of \$45 per ton.
- A selective mining unit of 15 x 15 x 10 feet has been used.
- Mineral Resource tonnage and contained metal have been rounded to reflect the accuracy of the estimate, and numbers may not add due to rounding.
- Silver and gold grade estimates were based on a less comprehensive data set than the copper grade estimates. Where copper grade estimates exist without accompanying silver or gold grade estimates, the drill hole was not used to estimate the silver or gold grade.
- Copper equivalency has been estimated using metal pricing of \$2.80 per pound of copper, \$20 per ounce of silver and \$1,300 per ounce of gold. Metallurgical recovery were derived from preliminary lock cycle test results and assumed to be 81% for gold and silver. The formula used is as follows:  $CuEQ = Cu\% + \{(Ag\ oz/t * \$20 * 0.81) + (Au\ oz/t * \$1,300 * 0.81)\} / \$2.80 / 2,000 * 100$ .



Table 4 summarizes the estimated Inferred Mineral Resources at various cut-off grades for comparison purposes, with 1.0% CuEQ used as the base case cut-off grade. At the 1.0% copper base case cut-off grade, the Inferred Mineral Resources are estimated to be 5.6 million tons at 1.53% copper.

**Table 4. Oracle Ridge Project Inferred Mineral Resource Estimate**

Cut-off %CuEQ	Tons Millions	Grade				%CuEQ	Contained Cu	Contained Ag	Contained Au
		%Cu	Ag oz/t	Au oz/t	Millions (lb)		Millions (oz)	Thousands (oz)	
2.00	1.4	2.35	0.65	0.004	2.61	65	0.9	5	
1.75	2.3	2.05	0.60	0.005	2.31	96	1.4	11	
1.50	3.1	1.89	0.57	0.004	2.14	118	1.8	14	
1.25	4.5	1.68	0.51	0.004	1.90	152	2.3	19	
<b>1.00</b>	<b>5.6</b>	<b>1.53</b>	<b>0.49</b>	<b>0.004</b>	<b>1.75</b>	<b>173</b>	<b>2.8</b>	<b>22</b>	
0.75	7.4	1.34	0.46	0.003	1.54	199	3.4	26	

- The effective date of the Mineral Resource estimate is February 26, 2014.
- Mineral Resources are not Mineral Reserves and do not have demonstrated economic viability. There is no certainty that all or any part of the Mineral Resources will be converted into Mineral Reserves.
- The base case cut-off grade of 1.0% CuEQ has been estimated to ensure reasonable prospects of economic extraction assuming extraction by an underground mining scenario, projected copper price of \$2.80 per pound and estimated total site operating costs of \$45 per ton.
- A selective mining unit of 15 x 15 x 10 feet has been used.
- Mineral Resource tonnage and contained metal have been rounded to reflect the accuracy of the estimate, and numbers may not add due to rounding.
- Silver and gold grade estimates were based on a less comprehensive data set than the copper grade estimates. Where copper grade estimates exist without accompanying silver or gold grade estimates, the drill hole was not used to estimate the silver or gold grade.
- Copper equivalency has been estimated using metal pricing of \$2.80 per pound of copper, \$20 per ounce of silver and \$1,300 per ounce of gold. Metallurgical recovery were derived from preliminary lock cycle test results and assumed to be 81% for gold and silver. The formula used is as follows:  $CuEQ = Cu\% + \{(Ag\ oz/t * \$20 * 0.81) + (Au\ oz/t * \$1,300 * 0.81)\} / \$2.80 / 2,000 * 100$ .
- Inferred Mineral Resources have a great amount of uncertainty as to their existence and as to whether they can be mined legally or economically. It cannot be assumed that all or any part of the Inferred Mineral Resources will ever be upgraded to a higher category.

The Mineral Resource model was developed using a total of 613 drill holes, including 128 holes (70 from surface and 58 from underground) drilled on behalf of Oracle Mining between 2011 and 2013 drilling campaigns and 485 historical drill holes. All copper grades from the historical drill holes were adjusted down by 12.5% to correct an apparent bias associated with the historical assay database identified as a result of the 2013 re-assaying program by Oracle Mining of historical drill core.

The updated Mineral Resource estimate has been generated from drill hole sample assay results and the interpretation of a geologic model that relates to the spatial distribution of copper in the deposit. Grade was estimated by ordinary kriging constrained within individually identified geological beds using sample data composited to 10-foot intervals into model blocks measuring 15 by 15 by 10 feet vertically. High grades, greater than 10% copper and greater than 2.0 oz/t silver, were restricted to search radii of 20 by 20 by 20 feet. A comprehensive geological model that encompasses all known mineralization was constructed. Resources have been classified using average distances and a minimum number of drill holes within the search ellipse and are reported according to the CIM definition standards for Mineral Resources and Mineral Reserves.

Dr. Arseneau verified the technical and scientific information including sampling, analytical and test data underlying the information or opinions relating to the updated Mineral Resource

estimate. This verification was done during a visit to the Oracle Ridge site and by reviewing and interpreting the data that was produced. In connection with the 2013 drilling program, Dr. Arseneau also reviewed QA/QC procedures, inspected drill core and reviewed assay certificates.

There are no known legal, political, environmental, or other risks that could materially affect the potential development of the Mineral Resources.

The results of the updated Mineral Resource estimate will delay our ability to advance towards completing a feasibility study for Oracle Ridge. As discussed below in section 4 of this MD&A, we plan, subject to the availability of financing, to complete further drilling on Oracle Ridge.

## **Power**

Trico Electric Cooperative has reviewed the proposed power line alignment and engineering for the Oracle Ridge project. Arizona Public Service completed a Network Integrated Transmission Service Agreement with Trico and Southwest Transmission Cooperative Inc., which determined that the additional power consumption contemplated by the Company could be serviced by APS through their substation in San Manuel.

## **Permitting and Regulatory Programs**

We have made significant progress in advancing the permitting process which would be necessary to re-start production at Oracle Ridge, should a production decision be made. The following have been completed:

- PDEQ Class II Air Quality Operating Permit – June 2012
- Pima County Memorandum of Understanding – July 2012
- Secured Right of Way from Arizona State Land Department – November 2012
- Aquifer Protection Permit – March 2013
- Preliminary Jurisdictional Delineation – February 2013
- Traffic Impact Analysis – March 2013
- Special Land Use Permit – May 2013

A preliminary draft Environmental Assessment was submitted to the U.S. Forest Service (“USFS”) during the fourth quarter of 2012 in support of our Plan of Operations. This authorization is necessary to allow us the use of a portion of Forest Service lands. USFS and Oracle Mining continue to advance this permit.

We have not made a production decision with respect to Oracle Ridge. A decision to proceed with production will be based upon the Company establishing a current Mineral Resource estimate and the results of a future Feasibility Study demonstrating economic and technical viability.

## *Qualified Person*

All scientific and technical information concerning the Oracle Ridge Project’s Mineral Resource Estimate in this MD&A was prepared by, or under the supervision of, Dr. Gilles Arseneau Ph.D., P.Geo., of ARSENEAU Consulting Services. Dr. Arseneau is an independent qualified person within the meaning of NI 43-101. All scientific and technical information in this MD&A, other than scientific and technical information concerning the Mineral Resource Estimate, has been reviewed and approved for inclusion in this MD&A by Kevin Francis, SME RM, Vice President Technical Services of Oracle Mining, a non-independent qualified person within the meaning of NI 43-101.

### 3. REVIEW OF FINANCIAL RESULTS

#### Selected Annual Information

For the year ended December 31, 2013, the Company had a net loss of \$13.2 million compared to net loss of \$21.7 million in the 2012 comparative period. Net loss in the current period is primarily due to exploration and evaluation expenditures of \$8.6 million at the Oracle Ridge copper project and \$4.5 million in general and administrative costs.

<i>In thousands of US Dollars</i>	<b>2013</b>	<b>2012</b>	<b>2011</b>
Net income (loss) income	(13,198)	(21,665)	(16,040)
<i>Basic and diluted (loss) gain per share</i>	<i>(0.27)</i>	<i>(0.55)</i>	<i>(0.51)</i>
Total assets	16,467	26,762	30,782
Total Liabilities	6,482	3,532	4,710

The decrease in general and administrative expenses of \$2.3 million for the current year compared to the equivalent 2012 period consisted of decreased salaries and benefits of \$0.6 million, decreased share-based payments of \$0.8 million, decreased investor relations costs of \$0.6 million, and decreased travel expenses of \$0.3 million.

The decrease in exploration and evaluation expenditures of \$5.4 million for the year compared to the equivalent 2012 period is primarily due to decreased design and technical studies costs of \$0.4 million, decreased site and safety services costs of \$0.8 million, decreased administrative and advisory costs of \$0.2 million, decreased underground exploration and development costs of \$1.1 million, decreased permitting costs of \$1.4 million and decreased drilling costs of \$1.6 million. A breakdown of exploration and evaluation expenditures has been provided for periods ended December 31, 2013 and 2012 (in thousands of US dollars).

#### Exploration and evaluation expenditures

	Year ended December 31,	
	<b>2013</b>	<b>2012</b>
	\$	\$
Design and technical studies	<b>2,825</b>	3,178
Permitting costs	<b>1,111</b>	2,481
Site and safety services	<b>710</b>	1,518
Drilling	<b>1,087</b>	2,657
Administrative and advisory costs	<b>2,337</b>	2,564
Underground exploration and development	<b>510</b>	1,592
	<b>8,580</b>	13,990

As at December 31, 2013, total assets were \$16.5 million compared to \$26.8 million as at December 31, 2012. The difference resulted from expenditures relating to the ongoing development of the Oracle Ridge copper project, including the exploration program, technical studies and permitting activities.

As at December 31, 2013, total liabilities were \$6.5 million compared to \$3.5 million as at December 31, 2012. Liabilities at December 31, 2013, mainly consist of trade and other payables and a convertible note. Prior year's balance included a \$0.7 million promissory note payable that was secured by a parcel of land comprising part of the Oracle Ridge copper property. In November 2013, the Company paid the remaining \$0.7 million of principal owing under the promissory note and all interest accrued.

## Summary of Quarterly Results

The following table presents our quarterly results of operations for each of the last eight quarters.

<i>In thousands of US Dollars</i>	Dec 31, 2013	Sept 30, 2013	June 30, 2013	Mar 31, 2013	Dec 31, 2012	Sept 30, 2012	Jun 30, 2012	Mar 31, 2012
Interest income	4	5	11	15	14	21	47	39
Net loss	(2,653)	(3,545)	(3,200)	(3,800)	(6,581)	(5,412)	(4,783)	(4,889)
Basic and diluted loss per share	(0.05)	(0.07)	(0.07)	(0.08)	(0.17)	(0.14)	(0.12)	(0.12)

For the three months ended December 31, 2013, the Company had a net loss of \$2.7 million compared to net loss of \$3.5 million for the three months ended September 30, 2013. The decrease in net loss compared to the prior quarter is primarily due to a decrease of \$1.2 million in exploration and evaluation expenditures, offset by an increase of \$0.1 million in general and administrative costs and an increase of \$0.2 million in interest expense during the fourth quarter.

The decrease in exploration and evaluation expenditures is primarily due to a decrease of \$0.6 million in design and technical studies, a decrease of \$0.4 million in drilling, and a decrease of \$0.1 million in administrative and advisory costs.

## 4. OUTLOOK

We are working towards the following objectives:

- conducting an extensive infill and expansion drill program (“2014 Drill Program”) with the goal of adding to and upgrading the existing Mineral Resources; and
- maintaining regulatory permits and approvals.

The 2014 Drill Program is planned to consist of approximately 35,000 feet of underground drilling. The Company expects that the drill program will cost approximately \$3.0 million. However, the Company evaluates the project development plan on an ongoing basis and may adjust the drill program as necessary. This may lead to an increase/decrease in both drilling footage and drilling costs.

To the extent possible, we intend to incorporate previously completed engineering studies in metallurgy and geotechnical engineering (“Project Development Studies”) into a future Feasibility Study. There is no assurance that a Feasibility Study will be completed or, if completed, that the outcome will be positive.

We have not made a production decision with respect to Oracle Ridge. A decision to proceed with production will be based upon the Company completing a future Feasibility Study demonstrating economic and technical viability.

To meet the corporate objectives stated above, additional funding will be required. Please refer to the “Continuing Operations” section below.

## 5. RISKS AND UNCERTAINTIES

For a comprehensive discussion of risk factors, readers are referred to the Company’s annual information form for the year ended December 31, 2012, dated April 1, 2013, which is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## **Continuing operations**

As at December 31, 2013, the Company had cash and cash equivalents of \$0.3 million, working capital deficiency of \$5.0 million, and long-term debt of \$0.7 million. During 2013, we were successful in raising net proceeds of \$3.2 million through financing activities as described in section 6 of this MD&A. Future financial needs and the continuity of the entity as a going concern will be dependent on the Company's ability to raise sufficient capital to fund ongoing operations.

Significant additional funding will be required to achieve our objectives for the next 12 months as discussed above and to repay the outstanding principal and interest of our convertible loan facility ("Loan Facility") with Rich Stone Management Investment (Hong Kong) Limited due November 12, 2014, as described in section 6 of this MD&A. The Company's continuing operations, as intended, are dependent on management's ability to raise funding through future equity issuances, debt financing, assets sales or a combination thereof. The ability to raise additional funding for future activities may be impaired, or such financing may not be available on favourable terms, due to conditions beyond the control of the Company, such as uncertainty in the capital markets or depressed commodity prices. This is discussed in more detail below.

While the Company has been successful in raising capital in the past, there is no assurance that it will be successful in obtaining financing in the future. Management has been actively communicating with various financial institutions and potential investors, including signing a non-binding, indicative term sheet for project financing with Credit Suisse AG for a secured term loan of up to \$70 million in order to advance the restart of the Oracle Ridge project. This project financing remains subject to a number of conditions, including completion of a Feasibility Study, due diligence, the receipt of internal credit approvals by Credit Suisse, and the negotiation and execution of definitive documentation.

## **Industry and economic factors affecting the Company's performance**

### *a) Dependence on Oracle Ridge*

We are an exploration and development stage company and as such do not anticipate receiving revenue from our mineral properties for some time. We are primarily focused on the exploration and development of the Oracle Ridge project.

We have not yet identified mineral resources or mineral reserves in accordance with NI 43-101 for the Oracle Ridge project, which will be required as a basis for determining if the Oracle Ridge project has bodies of commercial mineralization. The existing information about the Oracle Ridge project is largely historical. There may be significant costs, timing issues and complexities associated with confirming and upgrading the existing historical data for the Oracle Ridge project and the results of the confirmation and upgrading process may not be satisfactory or result in identified mineral resources or mineral reserves. As a result, unless we acquire additional property interests which can generate cash flow, any adverse developments affecting the Oracle Ridge project could have a material adverse effect upon the Company and would materially and adversely affect our potential mineral production, profitability, financial performance and results of operations.

*b) Exploration and development*

The property interests owned by the Company are in the exploration stage and have not been identified as mineral reserves in accordance with NI 43-101. Mineral exploration involves a high degree of risk and few properties that are explored are ultimately developed into producing mines. The Company's mineral exploration activities may not result in discovery of mineralization that can be technically and economically extracted. If the Company's efforts do not result in discovery of mineralization that can be technically and economically extracted, the Company will be forced to look for other exploration projects or cease operations.

Substantial expenditures are required to establish mineral resources and mineral reserves through drilling and the estimation of mineral resources or mineral reserves in accordance with NI 43-101. Although substantial benefits may be derived from the discovery of a major mineralized deposit, the Company may not discover minerals in sufficient quantities or grades to justify commercial operation and the funds required for development may not be obtained on a timely basis.

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 augments its internal exploration and operating expertise with advice from consultants and others as required. The economics of developing 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.

Estimates of mineral reserves and mineral resources can also be affected by environmental factors, unforeseen technical difficulties and unusual or unexpected geological formations. In addition, the grade of mineral ultimately mined may differ from that indicated by drilling results. Material changes in mineral reserve or mineral resource estimates, grades, stripping ratios or recovery rates may affect the economic viability of any project.

*c) Future financing*

Completion of future programs and repayment of indebtedness under the Loan Facility with Rich Stone will require additional financing. However, there is no certainty the Company will be able to raise funds in the event it needs to do so. Any successful future financing may dilute the interests of existing shareholders, and securities issued by the Company may grant rights, preferences or privileges senior to those of the Company's common shareholders.

Sales of a substantial number of common shares (including shares issuable upon the exercise of stock options and the exercise of warrants), or the perception that such sales could occur, could materially adversely affect prevailing market prices for the common shares and the ability of the Company to raise equity capital in the future.

*d) Litigation*

We are subject to litigation risks. All industries, including the mining industry, are subject to legal claims, with and without merit. In December 2012, the Company received notification of a lawsuit against the Company for an alleged breach of contract (See discussion in section 6 of this MD&A and note 20 of our consolidated financial statements). We may also be involved in disputes with other parties in the future which may result in litigation. The causes of potential future litigation cannot be known and may arise from, among other things, business activities, environmental laws, volatility in stock price or failure to comply with disclosure obligations. Defense and settlement costs of legal claims can be substantial, even with respect to claims

that have no merit. Due to the inherent uncertainty of the litigation process, the resolution of any particular legal proceeding to which we are or may become subject could have a material effect on our financial position, results of operations, our mining and project development operations or our current or potential financing arrangements.

*e) Titles to property*

There may be challenges to the title to the mineral properties in which the Company holds a material interest. If there are title defects with respect to any of its properties, the Company might be required to compensate other persons or perhaps reduce its interest in the affected property. Also, in any such case, the investigation and resolution of title issues would divert management's time from ongoing exploration and development programs.

*f) Permits and licenses*

The Company is required to obtain and renew licenses and permits from various government authorities for existing operations and any ultimate development, construction and commencement of mining operations. Obtaining or renewing the necessary governmental permits is a complex and time-consuming process. The duration and success of the Company's efforts to obtain and renew permits are contingent upon many variables not within its control. 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. Further, the cost to obtain or renew permits may exceed what the Company believes it can recover from a given property once in production. Any unexpected delays or costs associated with the permitting process could delay the development or impede the operation of a mine, which could adversely impact the Company's operations and profitability.

*g) Metal prices*

Even if the Company's exploration programs are successful, factors beyond the control of the Company may affect the marketability of any minerals discovered. The Company's revenues, if any, are expected to be in a large part derived from the mining and sale of copper and other precious and non-precious metals. The price of those commodities has fluctuated widely, particularly in recent years, and is 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 cannot be accurately predicted, but they may adversely affect the Company's operation and its ability to raise capital.

*h) Historical production may not be indicative of the potential for future development*

The Oracle Ridge project was previously an operating mine. However, historical production may not be indicative of the potential for future development of the property. Due to the uncertainties associated with exploration and development, including variations in geology and structure, there is no assurance that the Company's development efforts will be successful or that prior operating results are reflective of additional or economically developable deposits. Investors in the Company's securities should not rely on historical operations as an indication that the Company's mining properties will be placed into commercial production again or that such properties will produce revenues or be profitable.

*i) 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, for equipment required to conduct its activities, as well as for recruitment and retention of qualified employees.

In addition, there is no assurance that even if commercial quantities of minerals are discovered, a ready market will exist for their sale. Factors beyond the control of the Company may affect the marketability of any minerals discovered. These factors include market fluctuations, the proximity and capacity of natural resource markets and processing equipment, international economic and political trends, expectations of inflation, currency exchange fluctuations, interest rates and global or regional consumption patterns, speculative activities, government regulations, including regulations relating to prices, taxes, royalties, land tenure, land use, importing and exporting of minerals and environmental protection. The exact effect of these factors cannot be accurately predicted, but the combination of these factors may result in the Company not receiving an adequate return on invested capital or losing its invested capital.

*j) 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 toward stricter standards in which 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.

*k) Stage of development*

The Company does not have a history of earnings or the provision of return on investment, and in the future there is no assurance that it will produce revenue, operate profitably, or provide a return on investment. The Company has limited financial resources and its ability to achieve and maintain profitability and positive cash flow is dependent upon the Company being able to: (i) locate a profitable mineral property; (ii) generate revenues in excess of expenditures; and (iii) reduce exploration and administrative costs in the event revenues are insufficient.

*l) Dividends*

The Company has never declared or paid any dividends on its common shares. Currently, the Company intends to retain its earnings, if any, to finance the growth and development of the business and does not expect to pay dividends or to make any other distributions in the future, which may limit the way in which investors may realize any returns on their investment.

*m) Industry conditions*

The Company's assets and activities are subject to laws and regulations governing various matters, including, but not limited to:

- exploration, development of mines, production and post-closure reclamation;
- price controls;
- taxation;



- expropriation of property;
- environmental protection;
- use of toxic substances and explosives;
- management of natural resources;
- exports;
- development criteria or changes in conditions under which minerals may be mined, milled or marketed;
- labour standards and occupational health and safety, including mine safety; and
- historic and cultural preservation.

The costs associated with compliance with these laws and regulations are substantial and possible future laws and regulations, changes to existing laws and regulations or more stringent enforcement of current laws and regulations by governmental authorities, could cause additional expenses, capital expenditures, restrictions on or suspensions of the Company's operations and delays in the development of its properties. Moreover, these laws and regulations may allow governmental authorities and private parties to bring lawsuits against the Company based upon damage to property and injury to persons resulting from the environmental, health and safety impacts of the Company's past and current operations, or possibly even those actions of parties from whom the Company acquired its properties, and could lead to the imposition of substantial fines, penalties or other civil or criminal sanctions. It may be difficult to strictly comply with all regulations imposed on the Company. The failure to comply with all applicable laws could lead to financial restatements, fines, penalties and other material negative impacts on the Company.

*n) Uninsured hazards*

Mineral exploration involves risks, including unusual geological conditions, which, even with a combination of experience, knowledge and careful evaluation, mineral exploration companies may not be able to overcome. The Company may become subject to liability for damage to property, environmental damage or other damage, 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.

*o) Key employees*

The Company's performance is substantially dependent on the performance and continued efforts of the Company's key officers. The loss of the services of any of the Company's key officers could have a material adverse effect on the Company business, results of operations and financial condition. The Company currently does not carry any key person insurance on any of its officers. The Company has limited resources and may be unable to compete with larger organizations with respect to compensation and perquisites.

*p) 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 matters. 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.

## 6. LIQUIDITY AND CAPITAL RESOURCES

The Company's consolidated financial statements have been prepared in accordance with IFRS applicable to a going concern. The Company's future liquidity will depend upon its ability to develop and finance future profitable business opportunities.

<i>In thousands of US dollars</i>	Dec 31, 2013	Sept 30, 2013	June 30, 2013	Mar 31, 2013	Dec 31, 2012
Cash and cash equivalents	324	648	2,426	5,428	11,051
Working capital	(4,955)	(2,353)	1,068	4,231	8,849

Cash and cash equivalents as at December 31, 2013 were \$0.3 million compared to \$11.1 million as at December 31, 2012. Working capital deficiency was \$5.0 million as at December 31, 2013, compared to working capital of \$8.8 million as at December 31, 2012. The decrease in both cash on hand and working capital is due to resources expended for exploration and evaluation of the Oracle Ridge project and general and administrative costs.

The Company's current plans are to continue to minimize expenses while performing the necessary work to advance the Oracle Ridge project. The Company anticipates receiving the remaining instalments of the Loan Facility from Rich Stone Mining Investment (Hong Kong) Limited ("Rich Stone") which should provide the Company approximately C\$2 million (following deduction for fees and interest payable) no later than March 31, 2014. The remaining instalments of the Loan Facility from Rich Stone will not provide the Company sufficient financial resources required to complete the 2014 Drill Program. The Company is currently contemplating additional financing to support operations and finance the 2014 Drill Program. While the Company has been successful in raising capital in the past, there is no assurance that it will be successful in obtaining financing in the future.

### Financing activities

*Year-end December 31, 2013*

On November 12, 2013, the Company closed the initial tranche of approximately C\$3.0 million of a secured convertible loan facility for up to an aggregate principal of C\$10.0 million with Rich Stone. The balance of the first tranche (approximately C\$1.0 million was received on November 21, 2013). The loan will mature on November 12, 2014. The Company paid an origination fee of C\$0.2 million to Rich Stone, an arm length's party, and incurred expenses of C\$0.5 million. As at December 31, 2013, the Company has accrued interest of C\$0.2 million relating to the financing. Please refer to note 8 of the consolidated financial statements for additional information.

Description of Financing	Disclosed Use of Proceeds	Actual Use of Proceeds
November 2013 convertible loan facility: \$3.2 million net proceeds	Expenditures related to Oracle Ridge and general corporate purposes	Expenditures related to Oracle Ridge, including repayment of a promissory note related to a land exchange (\$720,260) (see note 8 of the consolidated financial statements), and normal course accounts payable

As security for the Loan Facility, the Company has granted in favour of Rich Stone: (i) a general security agreement providing for a security interest over all present and after-acquired personal property; and (ii) a pledge of equity interests with respect to all securities held by the Company in the capital of 0830438 B.C. Ltd. ("BC Holdco"). The Loan has also been guaranteed by BC Holdco and Oracle Ridge Mining LLC ("Oracle Ridge") and the obligations under these guarantees are secured by: (i) a general security agreement granted by BC Holdco providing a security interest over all present and after-acquired personal property; (ii) a pledge of BC Holdco's equity interest in all membership interests of Oracle Ridge; (iii) a deed of trust with respect to certain real property and mining rights held by Oracle Ridge in Pima County, USA (subject to the net smelter royalty in favour of MF2 Investment Company I LP); (iv) a leasehold deed of trust with respect to Oracle Ridge's rights and interest under certain leases with respect to certain real property in Pima County, USA; and (v) a security agreement with respect to all present and after-acquired personal property of Oracle Ridge.

Rich Stone has the option to convert, on or before November 12, 2014, C\$4.0 million and all interest accrued, but unpaid thereon (excluding, for greater certainty, default interest), to common shares at the lower conversion price of: (i) C\$0.37 per share; and (ii) the market price calculated as the volume weighted average trading price of the common shares for the five (5) trading days prior to the date of conversion, provided that, such market price will not be less than a minimum price of C\$0.30 per share.

On January 24, 2014, the Company received an advance of approximately C\$2.5 million pursuant to the terms of the Loan Facility with Rich Stone dated November 12, 2013. The Loan Facility was amended to facilitate the second advance commitment of C\$6 million being received by Oracle Mining by way of installments. Rich Stone may, in its sole discretion, and at any time prior to the maturity date, convert the principal and interest outstanding in respect of the second tranche into common shares of the Company at the price of C\$0.37 per share.

#### *Year-end December 31, 2012*

On February 28, 2012, the Company completed a private placement for 7,800,000 common shares of the Company at a subscription price of C\$1.25 per share raising gross proceeds of C\$9.8 million (\$9.8 million). The Company paid a finder's fee to an arm length's party in the aggregate amount of C\$0.6 million (\$0.6 million) and incurred expenses of C\$86,000 (\$86,000).

On March 12, 2012, the Company announced that it had entered into a non-binding, indicative term sheet for project financing with Credit Suisse AG ("Credit Suisse") for a secured term loan of up to \$70.0 million in order to advance the Oracle Ridge development. The project financing remains subject to a number of conditions, including completion of a positive Feasibility Study, due diligence, the receipt of internal credit committee approvals by Credit Suisse, and the negotiation and execution of definitive documentation.

In May 2012, the Company paid \$0.5 million of principal owing under the promissory notes relating to Oracle Ridge. In November 2012, the Company paid the full outstanding balance on the promissory notes payable, plus accrued interest, for a total of \$2.7 million.

On November 21, 2012, the Company completed an additional private placement for 9,800,000 units of the Company at a subscription price of C\$0.85 per unit raising gross proceeds of C\$8.3 million (\$8.3 million). Each unit consists of one common share of the Company and one-half of one common share purchase warrant. The Company incurred C\$0.4 million (\$0.4 million) in share issuance costs on the transaction. Please refer to note 6(a) of the consolidated financial statements for additional information.

<b>Description of Financing</b>	<b>Disclosed Use of Proceeds</b>	<b>Actual Use of Proceeds</b>
February 2012 private placement: \$9.1 million net proceeds	Expenditures related to Oracle Ridge and general corporate purposes	Expenditures related to Oracle Ridge and general corporate purposes
November 2012 private placement: \$8.4 million net proceeds	Continued development of Oracle Ridge and related working capital requirements.	Continued development of Oracle Ridge and related working capital requirements.

## **Investing activities**

### *Year-end December 31, 2013*

During the year ended December 31, 2013, the Company invested approximately \$63,000 in plant and equipment. The Company also posted a surety bond of \$0.8 million in relation to receipt of the Acquirer Protection Permit. The Company sold all its marketable securities during the year for gross proceeds of \$0.2 million.

During the year ended December 31, 2013, the Company continued to pay leases for additional land adjacent to the Oracle Ridge project in the amount of \$19,200. The Company also paid an option payment of \$20,000 for a mineral property in Colorado. The full balance of the mineral property in Colorado was written off at year end.

### *Year-end December 31, 2012*

During the year ended December 31, 2012, the Company invested approximately \$0.5 million in plant and equipment. Expenditures in the current year are mainly attributable to the purchase of site equipment of \$0.4 million and \$0.1 million of head office equipment.

In November 2012, the Company and its indirect subsidiary entered into a net smelter return royalty agreement (the "Royalty Agreement") with MF2 Investment Company 1LP, Bermuda LP ("MF2"). Under the terms of the Royalty Agreement, the Company completed the sale of a 3% net smelter returns royalty on the future sale of any metals and minerals derived from the Project for net proceeds of \$8.8 million. Please refer to note 6(a) of the consolidated financial statements for additional information.

During the year ended December 31, 2012, we entered into a land exchange agreement ("Exchange Agreement") with Pima County of Arizona (the "County"). Under the terms of the Exchange Agreement, we agreed to exchange land that we had purchased from a third party ("Exchange Property") for land owned by the County. The County land provides key access between the project site and proposed tailings area. The Company purchased the Exchange Property for a total price of \$1.7 million of which \$1.0 million was paid in cash and \$0.7 million issued in the form of a promissory note (the "Note"). The Company incurred approximately \$6,000 in transaction costs which has been capitalized to the property. The Note was paid off in full including accrued interest on November 12, 2013.

## **Contingencies, commitments and liabilities**

As at December 31, 2013, the anticipated cash payments required to satisfy the Company's commitments and liabilities are as follows:

<i>In thousands of US Dollars</i>	<b>Total</b>	<b>Less than 1 year</b>	<b>1 - 5 years</b>	<b>After 5 years</b>
Trade and other payables	2,472	2,472	-	-
Convertible note, including interest	4,480	4,480	-	-
Reclamation Provision (undiscounted)	708	-	-	708
Other liabilities	305	-	305	-
Lease commitments	1,768	475	1,216	77
<b>Total</b>	<b>9,733</b>	<b>7,427</b>	<b>1,521</b>	<b>785</b>

Current working capital is not sufficient to meet all commitments or to carry out its plans as described in section 4 of this MD&A. Significant additional funding will be required to meet the commitments and to carry out its plans. The Company is currently evaluating various financing options to support operations.

In December 2012, the Company received notification of a lawsuit against the Company from a third party regarding an alleged breach of contract related to a finder's fee in respect of certain financing arrangements. It is the position of the Company that none of the triggering events have occurred and that no compensation is payable by the Company. The Company vigorously defended the claim in a trial held on January 28-30, 2014 before a judge in the United States District Court Southern District of New York. A decision is expected within 45 days of filing the closing submissions made on February 24, 2014. See "Risks and Uncertainties – Litigation".

#### **Off-Balance Sheet Arrangements**

The Company does not have any off-balance sheet arrangements.

#### **Proposed Transactions**

As is typical of the mineral exploration and development industry, Oracle Mining is continually reviewing potential merger, acquisition, investment and joint venture transactions and opportunities that could enhance shareholder value.

#### **Financial Instruments and Other Instruments**

The Company's financial instruments consist of cash and cash equivalents, marketable securities, other receivables, reclamation bond, trade and other payables, promissory note payable, convertible note, derivative liability, and other long-term liabilities. Fair value estimates are made at the balance sheet date, based on relevant market information about the financial instrument. These estimates are subjective in nature and may involve significant uncertainties in matters of judgment and, therefore, cannot be determined with precision. The fair values of cash and cash equivalents, other receivables, trade and other payables, taxes payable and promissory note payable, and other long-term liabilities approximate their carrying values due to their short term maturity.

The Company's financial instruments have been classified as follows under IFRS:

- Cash and cash equivalents: Loans and receivables
- Marketable securities: Fair value through profit and loss
- Other receivables: Loans and receivables
- Reclamation bond: Loans and receivables
- Trade and other payables: Other liabilities
- Promissory note: Other liabilities

- Convertible notes: Other liabilities
- Derivative liabilities: Fair value through profit and loss
- Other long-term liabilities: Other liabilities

The Company has exposures to financial risks of varying degrees of significance which could affect its ability to achieve its strategic objectives for growth and shareholder returns. The principal financial risks to which the Company is exposed are interest rate risk, foreign currency risk, credit risk, price risk and liquidity risk.

Liquidity risk is the risk that the Company will be unable to meet its financial obligations as they become due. The Company manages liquidity risk by ensuring that it has sufficient cash and other financial resources available to meet its obligations. The Company manages liquidity risk through an annual budget and ongoing monitoring of expenses and capital expenditures.

In management's opinion, the Company is not exposed to significant interest rate or credit risk arising from these financial instruments. The Company is exposed to foreign currency risk through its cash and cash equivalents, other receivables and accounts payable denominated in Canadian dollars. As a result, the Company is subject to foreign exchange risk from fluctuations in foreign exchange rates. At December 31, 2013, with other variables unchanged, a 10% change in the US dollar/Canadian dollar exchange rate would impact pre-tax earnings by \$0.5 million for the year ended December 31, 2013. The Company monitors US dollar/Canadian dollar exchange rates on a constant basis and takes actions to mitigate risks as necessary.

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's ability to access capital markets due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on net income and economic value due to commodity price movements and volatilities. The Company closely monitors the commodity price of copper and the stock market to determine the appropriate course of action to be taken by the Company.

### **Transactions with Related Parties**

During the year ended December 31, 2013, the Company paid \$0.5 million (2012 - \$0.5 million) in advisory fees to directors of the Company.

The Company paid an annual consulting fee to a private consulting company owned and controlled by Mr. Paul Eagland, a Director and Chairman of the Company, for consulting services provided by him to the Company, for a management consulting fee of C\$250,000 paid monthly on a pro-rated basis. In connection to the initial closing of the Rich Stone Secured Convertible Loan Facility, Mr. Eagland resigned as Director and Chairman effective November 12, 2013 and discontinued his consulting arrangement, in exchange for one-time remuneration in the amount of C\$125,000. Gregory K. Liller, a Director of the Company, was paid as a management and mineral exploration consultant to the Company for consulting services provided by him to the Company, for a management consulting fee of \$250,000 paid monthly on a pro-rated basis. Mr. Liller resigned as a consultant to the Company effective August 31, 2013.

Xuanren (Joe) Wu is an employee of Rich Stone and the Company and was appointed a Director of Oracle Mining on November 12, 2013. Rich Stone Mining Investment (Hong Kong) Limited and the Company entered into a secured convertible Loan Facility in November 2013 and pursuant to the Loan transaction, Rich Stone has the right to designate one additional individual to be nominated and if elected, to serve as a member of the Corporation's board of

directors. As a condition precedent of the Initial Closing, the board of directors of the Corporation appointed Mr. Wu as Rich Stone's nominee to hold office until the Corporation's next annual general meeting. In addition, Rich Stone beneficially owns, or controls or directs, approximately 15.9% of the Shares of the Company and accordingly, Mr. Wu has been deemed non-independent. Mr. Wu receives no fee for work he performs as a Director of the Company.

These transactions were incurred in the normal course of business and are measured at the exchange amount which was the consideration established and agreed to by the related parties.

#### *Compensation of key management personnel*

During the year-end December 31, 2013, the Company paid salaries to key members of management and director's fees of \$1.6 million (2012 - \$1.6 million). In addition, the Company made share-based payments to the same individuals for the year of \$0.3 million (2012 - \$0.3 million).

#### *Rich Stone Secured Convertible Loan Facility*

As Rich Stone is a significant shareholder of the Company, the Company regards the Loan Facility, pursuant to the terms and conditions of a loan agreement dated November 12, 2013 among the Company, as borrower, BC Holdco and Oracle Ridge, as guarantors, and Rich Stone, as lender, as a related party transaction. The Company entered into this related party transaction because alternate sources of financing were not available given the limited access to public financing due to current global financial conditions. As at December 31, 2013, C\$4,000,000 has been advanced by Rich Stone and fees and interest of C\$480,000 were paid to Rich Stone.

The Loan Facility is a hybrid financial instrument. The debt component is measured at amortized cost and is accreted over the expected term to maturity using the effective interest method. The derivative component is measured at fair value at each report period. As at December 31, 2013, the debt component of the convertible note had a carrying value of \$2,933,000 and the derivative liability had a fair value of \$376,000. An unrealized gain on the derivative liability of \$41,000 was recorded in 2013.

The Loan Facility has usual and customary covenants to keep the facility in good standing, including, but not limited to, repayment of the loan and accrued interest, monthly financial reports, compliance with all applicable laws and applicable securities legislation, provide notice of material events, comply with the use of proceeds provisions of the loan, maintain Secured Assets and insurance on these.

For further information regarding the Loan Facility see section 6 of this MD&A and notes 8(b), 19(c) and 23 of the consolidated financial statements. A copy of the Loan Facility agreement, as amended, is available on SEDAR at [www.sedar.com](http://www.sedar.com).

## Capitalization

As at March 12, 2014, the Company had the following issued and outstanding common shares and unexercised stock options and warrants:

	<b>Shares and Potential Shares</b>
Common shares outstanding	49,034,070
Warrants (Exercise price C\$1.02)	4,900,000
Stock options (average exercise price C\$0.78)	3,400,000
Conversion of convertible note - First tranche (min. C\$0.30 conversion price)	13,766,951
Conversion of convertible note - Second tranche (C\$0.37 conversion price)	6,861,163
<b>Total common shares and potential common shares</b>	<b>77,962,184</b>

## 7. DISCLOSURE CONTROLS AND INTERNAL CONTROL OVER FINANCIAL REPORTING

### *Disclosure controls and procedures*

Disclosure controls and procedures have been designed to provide reasonable assurance that material information related to the Company is identified and communicated as appropriate on a timely basis.

The Company's management, including the Chief Executive Officer and Chief Financial Officer, has evaluated the effectiveness of the design and operation of our disclosure controls and procedures as at December 31, 2013. Based on this evaluation, they concluded that our disclosure controls and procedures were effective as at December 31, 2013 in providing reasonable assurance that the information required to be disclosed in reports we filed or submitted under Canadian securities legislation was recorded, processed, summarized and reported within the time periods specified in those rules.

### *Internal control over financial reporting*

The Company's management, including the Chief Executive Officer and Chief Financial Officer, is responsible for establishing and maintaining adequate internal control over financial reporting, and used the framework issued by the Committee of Sponsoring Organizations of the Treadway Commission (COSO) to evaluate the effectiveness of our controls in 2013.

Based on this evaluation, management concluded that our internal control over financial reporting was effective as at December 31, 2013 and provided a reasonable assurance of the reliability of our financial reporting and preparation of the financial statements.

However, the Company's management, including the Chief Executive Officer and the Chief Financial Officer, do not expect that the Company's internal control over financial reporting will be capable of preventing all errors and fraud. Any system no matter how well conceived or operated has inherent limitations. Therefore, even systems determined to be effective can provide only reasonable, not absolute, assurance of the reliability of financial statement preparation and presentation.



### *Changes in internal control over financial reporting*

There have been no changes in the Company's internal control over financial reporting during the year ended December 31, 2013 that have materially affected, or are reasonably likely to materially affect, internal control over financial reporting. On July 9, 2013, the former Chief Executive Officer of the Company, Alan Edwards, left the Company; Kevin Drover was appointed as the new Chief Executive Officer on November 12, 2013. On October 15, 2013, the former Chief Financial Officer of the Company, Tiffany Grenke, left the Company; Ampere Chan was appointed as the new Chief Financial Officer on November 18, 2013.

## **8. CRITICAL JUDGEMENTS AND ESTIMATES**

The consolidated financial statements are prepared in accordance with IFRS. 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 and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period.

The critical judgments that the Company's management has made in the process of applying the Company's accounting policies, apart from those involving estimations (see below), that have the most significant effect on the amounts recognized in the Company's consolidated financial statements are related to the economic recoverability of the mineral properties, the determination of functional currency for the Company and its subsidiaries, the determination that the acquisition of the Oracle Ridge project represents an acquisition of an asset rather than a business combination and the assumption that the Company will continue as a going concern.

Certain of our accounting policies are recognized as critical because they require management to make estimates and assumptions about matters that are inherently uncertain. Our critical accounting policies and estimates relate to:

- The recoverability of amounts receivable and prepayments;
- Impairment of non-financial assets;
- The estimated fair value of marketable securities;
- The estimated useful lives of property, plant and equipment and the related depreciation;
- The inputs used in accounting for share-based compensation expense;
- The inputs used in accounting for the fair value of warrants;
- The allocation of funds received from MF2 Investment Company 1LP, Bermuda LP between the NSR Royalty, issued capital, and warrant reserve; and
- The inputs used in accounting for the convertible note payable and derivative liability which are included in the consolidated statement of financial position and the related unrealized gain on derivative liability included in the statement of comprehensive loss.

For a summary of significant accounting policies, please refer to note 2 of the consolidated financial statements.

Management believes it has made estimates that best reflect the facts and circumstances, however, actual results may differ from estimates.

## 9. NEW ACCOUNTING STANDARDS AND INTERPRETATIONS

In October 2010, the International Accounting Standards Board (“IASB”) issued amendments to IFRS 7 - Financial Instruments: Disclosures that enhance the disclosure requirements in relation to transferred financial assets. The Company adopted this amendment effective January 1, 2012. The adoption of this amendment did not have a significant impact on the Company’s consolidated financial statements.

The following standards are effective for annual periods beginning on or after January 1, 2013 (except as noted), with earlier adoption permitted. The Company has determined that there will be no material impact on the consolidated financial statements.

- IFRS 10, Consolidated Financial Statements: IFRS 10 establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27, Consolidated and Separate Financial Statements, and SIC-12, Consolidation – Special Purpose Entities.
- IFRS 11, Joint Arrangements: IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes current IAS 31, Interests in Joint Ventures and SIC-13, Jointly Controlled Entities-Non – Monetary Contributions by Venturers.
- IFRS 12, Disclosure of Interests in Other Entities: IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.
- IFRS 13, Fair Value Measurements: IFRS 13 defines fair value, sets out in a single IFRS framework for measuring value and requires disclosures about fair value measurements. The IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except in specified circumstances.
- IAS 1, Presentation of Financial Statements: In June 2011, the IAS issued amendments to IAS 1 that requires an entity to group items presented in the statement of comprehensive income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The amendments are effective for annual periods beginning on or after July 1, 2012, with earlier adoptions permitted.
- IAS 27, Separate Financial Statements: IAS 27 has been updated to require an entity presenting separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments. The new IAS 27 excludes the guidance on the preparation and presentation of consolidated financial statements for a group of entities under the control of a parent, which is within the scope of the current IAS 27 Consolidated and Separate Financial Statements, and is replaced by IFRS 10.
- IAS 28, Investments in Associates and Joint Ventures: IAS 28 has been updated and it is to be applied by all entities that are investors with joint control of, or significant influence over, an investee. The scope of the current IAS 28 Investments in Associates does not include joint ventures.

- IFRIC 20, Stripping Costs in the Production Phase of a Mine: In October 2011, the IASB issued IFRIC 20 which clarifies the requirements for accounting for the costs of stripping activity in the production phase when two benefits accrue: (i) usable ore that can be used to produce inventory and (ii) improved access to further quantities of material that will be mined in future periods..

The following standards will become effective in 2014 and 2015 as noted below:

- IAS 32, Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32): On December 16, 2011 the IASB published amendments to IAS 32 Financial Instruments: Presentation to clarify the application of the offsetting requirements. The amendments are effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.
- IFRS 9, Financial Instruments: IFRS 9 introduces the new requirements for the classification, measurement and de-recognition of financial assets and financial liabilities. Specifically, IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value, and all financial liabilities classified as subsequently measured at amortized cost except for financial liabilities as at FVTPL. The amendments are effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.
- IFRS 21, Levies: IFRIC 21 is an interpretation of IFRS 37 – Provisions, Contingent Liabilities and Contingent Assets, on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (“obligation event”). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods commencing on or after January 1, 2014.