



## **CRITICAL ELEMENTS CORPORATION**

(an exploration company)

### **MANAGEMENT DISCUSSION AND ANALYSIS**

For the three-month period ended November 30, 2013

(First quarter)

# MANAGEMENT DISCUSSION AND ANALYSIS

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This management discussion and analysis ("MD&A") of Critical Elements Corporation ("Critical Elements" or the "Company") complies with Rule 51-102A of the Canadian Securities Administrators regarding continuous disclosure.

The MD&A is a narrative explanation, through the eyes of the management of Critical Elements, of how the Company performed during the three-month period ended November 30, 2013, and of the Company financial condition and future prospects. This discussion and analysis complements the unaudited condensed interim financial statements for the three-month period ended November 30, 2013 but does not form part of them.

The unaudited consolidated financial statements have been prepared by the Company's management in accordance with International Financial Reporting Standards ("IFRS").

All figures are in Canadian dollars unless otherwise stated. Additional information relating to the Company can be found on SEDAR at [www.sedar.com](http://www.sedar.com). The shares of Critical Elements are listed on the TSX Venture Exchange under the symbol CRE, on the American Over-The-Counter QX stock exchange (OTCQX) under the symbol CFECF and on the Frankfurt Exchange under the symbol F12.

## DATE

The MD&A was prepared on the basis of information available as at January 13, 2014.

## CAUTION REGARDING FORWARD-LOOKING STATEMENTS

This document contains forward-looking statements that reflect the Company's current expectations regarding future events. To the extent that any statements in this document contain information that is not historical, the statements are essentially forward-looking and are often identified by words such as "anticipate", "expect", "estimate", "intend", "project", "plan" and "believe". Forward-looking statements involve risks, uncertainties, and other factors that could cause actual results to differ materially from those expressed or implied by such forward-looking statements. There are many factors that could cause such differences, particularly: volatility and sensitivity to market metal prices; impact of change in foreign currency exchange rates and interest rates; imprecision in reserve estimates; environmental risks including increased regulatory burdens; unexpected geological conditions; adverse mining conditions; changes in government regulations and policies, including laws and policies; failure to obtain the necessary permits and approvals from government authorities; and other development and operating risks.

While the Company believes that the assumptions underlying in the forward-looking statements are reasonable, undue reliance should not be placed on these statements, which only apply as of the date of this document. The Company disclaims any intention or obligation to update or revise any forward-looking statement, whether or not it should be revised because of new information, future events or otherwise, unless required to do so by the applicable securities laws.

## NATURE OF ACTIVITIES

Critical Elements is incorporated under the Canada Business Corporations Act. The Company is involved in the acquisition, exploration and development of mining properties. The Company is active in Canada.

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## OVERALL PERFORMANCE

### RESULTS OF OPERATIONS

#### MATCHI-MANITOU – COPPER, ZINC, GOLD AND SILVER PROJECT

##### Property Description

The property consists of 29 claims in Tavernier and Pershing townships, in the Abitibi region of Quebec. The Company holds a 71% interest in this property.

##### Work done during the period

During the year ended August 31, 2013, the Company decided to impair this property to focus its energies and capital on its most promising properties. The Company nevertheless retains all its property rights.

#### CROINOR 1 – GOLD PROJECT

##### Property Description

The Croinor project includes a mining lease of 90 hectares situated approximately at 75 km by road east of Val-d'Or. The Company is party to a joint venture agreement with publicly-listed X-Ore Resources Inc, a subsidiary of Blue Note Mining Inc., whereby each company will fund 50% of the exploration and evaluation work, as well as any mine development work that might take place on the Croinor property.

On February 22, 2012, a 43-101 compliant resource estimate and prefeasibility study (the "Prefeasibility Study") was completed by InnovExplo. The plan outlines a 5 year (58 months) production plan operating at 425 tonnes per day ramping up to 675 tonnes per day in year 4 with a proven and probable mining reserve of 566,872 tonnes containing 120,883 oz of gold. Annual production at full production will reach 41,578 oz of gold. The overall cost is \$1,032 per oz of gold with an operating cost component of \$762 per oz of gold. The Prefeasibility Study also highlighted the excellent potential to expand the resource with further surface and underground drilling, thereby extending the life of the mine and improving the already robust economics of the project.

The Prefeasibility Study includes updated mineral resources/reserves with respect to Measured and Indicated resources. In order to evaluate the impact of the Inferred resources on the project economics with the assumption that the Inferred resources would be converted into Indicated Resources, a second study was completed. A preliminary economic assessment (the "PEA") that includes Inferred resources potentially viable to mining was completed by InnovExplo on April 4, 2012. The Inferred resources are all in the immediate vicinity of the Indicated resources. The bulk of the Inferred resources represent a fringe around the Indicated resources and extend to a maximum of 70 m and do not have enough drill holes intersects to be categorized as Indicated although it would be relatively easy to convert all or parts of the Inferred into Indicated category by definition drilling\*.

The PEA outlines a 5 year (65 months) production plan operating at 425 tonnes per day ramping up to 750 tonnes per day in year 4 with **resources potentially viable to mining\*** of 583,285 tonnes (Measured+Indicated) containing 124,503 oz of gold and 105,876 tonnes (Inferred) containing 24,287 oz of gold. Annual production at full production will reach 47,477 oz of gold. The overall cost is \$959 per oz of gold with an operating cost component of \$731 per oz of gold.

\*The reader is cautioned that the results of the PEA is preliminary in nature; it includes Inferred mineral resources that are too speculative geologically to have the economic considerations applied to them that would enable them to be categorized as mineral reserves, and there is no certainty that the PEA will be realized. The existing mineral reserves and Prefeasibility Study are still current and valid in light of the key assumptions and parameters used in the PEA.

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The results obtained by Blue Note for the 2011 drill program clearly demonstrate the potential to increase the Croinor mineral resource to the east of the current reserve, within the current reserve block and to the west of the current reserves. The results also indicate the potential to increase the Croinor mineral resources at depth. There is also a strong indication of gold mineralization at depth in the form of multiple lenses at depth. Intersections from holes drilled on Section 750W include 21.70 g/t gold over 1.0 meter and 28.15 g/t gold over 1.0 meter in CR-11-395, 9.62 g/t gold over 2.5 meters including 17.83 g/t gold over 0.8 meter in CR-11-398 and 44.04 g/t gold over 0.5 meter in CR-11-400. The drill holes on Section 750W are 50 meters west of planned development in the current ore reserves. Step-out drilling on Section 880W intersected 4.04 g/t gold over 1.3 meters that included 6.88 g/t gold over 0.5 meter, indicating continuity of gold mineralization further to the west. Hole CR-11-408 was drilled from south to north to follow the diorite sill at depth to investigate new potential mineralized zones. The hole was drilled to 751 meters (660 meters vertical). Numerous mineralized zones were encountered throughout the hole from a vertical depth of 51 meters through 654 meters. Results from hole CR-11-408 clearly demonstrate that Croinor's type and density of mineralization extend to 654m at depth and is still open in all directions.

In November 2011, Blue Note released the results of the 3,000-metre drilling program carried out recently at Croinor. The drill program was aimed at extending the boundaries of the mineralized lenses of the current deposit to allow better delineation for mine planning purposes. A major zone grading from 1.10 g/t Au to 50.76 g/t Au was intersected in each hole of the program (see news release dated October 20, 2011). As for earlier drilling carried out near the current mineral reserves, the results for this drill program continue to demonstrate the continuity of the mineralized lenses and the possibility of increasing the reserves at Croinor.

With respect to the permitting and engineering projects initiated in 2010 in anticipation of a positive production decision, the Certificate of Authorization from the Department of Sustainable Development, Environment and Parks (MDDEP) for the Croinor gold project was received from the Quebec government which allows for mine development and underground production. The crown pillar stability study has been completed and finalized in April 2011. The site reclamation plan has also been completed. Both reports will be filed with the Quebec government when a positive decision is reached to commence dewatering of the underground workings.

Our partner X-Ore Resources Inc., has lodged a proposal under the *Bankruptcy and Insolvency Act* on November 1<sup>st</sup>, 2013.

### **Work done during the year**

No exploration work was carried out on the property during the period covered by this MD&A.

## **ROSE TANTALUM-LITHIUM PROJECT**

### **Property Description**

The Rose Tantalum-Lithium property consists of 482 claims covering a total area of 251.33 km<sup>2</sup>. It lies in the northeastern part of Superior Province, within the Eastmain greenstone belt (NTS 33C/1). Boisvert (1989) described a variety of regional lithologies, including biotite schists, gneiss, basalts, dacites, quartzites, conglomerates, gabbros, granites and pegmatites. The lithologies are generally well foliated and strike southeast, except for the massive, unfoliated pegmatites and granites. The Lac Pivert and Rose properties host pegmatites that occur as irregular but generally continuous lenses within the biotite schists. The pegmatite lenses can be up to 60 metres thick and 100 metres long. Collectively, they form an assembly several kilometres long and up to 300 metres thick.

Carlson (1962; MRNFQ report RP 483) identified pegmatites enriched in rare metals in the area. In 1961, additional work by Quebec's Ministry of Natural Resources and Wildlife (the "MRNFQ") identified the Rose and Lac Pivert mineralized showings, which exhibited a metallogenic setting similar to Lithium One's Cyr Lithium discovery.

The Lac Pivert showing (MRNFQ Deposit Sheet 33C/01-0005) hosts a pegmatite containing 20% spodumene (an aluminum/lithium silicate), beryl (an aluminum/beryllium silicate) and trace molybdenite (a molybdenum sulphide). Grab samples returned up to 1.16% Li (2.5% Li<sub>2</sub>O) and 74 ppm Be (MRNFQ, 2001).

The Rose showing consists of en-echelon and individual pegmatite dikes up to 15 metres thick, cut by centimetric quartz veins. The spodumene and lepidolite (a potassium, aluminum and lithium silicate) can form centimetric lenses representing up to 40% of the pegmatites locally (MRNFQ, 2001). Grab samples returned grades of up to 0.21% Li (0.452% Li<sub>2</sub>O) and 129 ppm Be.

Historical regional work on the Rose and Lac Pivert properties (Carlson, 1962) returned rare earth grades of up to 2.5% Li<sub>2</sub>O, 1,300 ppm rubidium, 130 ppm beryllium, 70 ppm niobium and 50 ppm tantalum, which is typical of albite-spodumene pegmatites (Cerny, 1991). This type of pegmatite is also associated with the Preissac-Lacorne batholith in the southern Abitibi region near Val-d'Or, where it was the source of production from the Québec Lithium mine (Boily, 1995; Mulja et al., 1995; Ste-Croix and Doucet, 2001).

In July 2011, the Company published a new resource estimate by InnovExplo of Val-d'Or, shown in the following table:

	Tonnes (x 1,000)	Li <sub>2</sub> O equivalent (%)	Li <sub>2</sub> O (%)	Ta <sub>2</sub> O <sub>5</sub> (ppm)	Rb (ppm)	Cs (ppm)	Be (ppm)	Ga (ppm)
<b>Indicated resource</b>	<b>26,500</b>	<b>1.30%</b>	<b>0.98%</b>	<b>163</b>	<b>2 343</b>	<b>92</b>	<b>128</b>	<b>66</b>
<b>Inferred resource</b>	<b>10,700</b>	<b>1.14%</b>	<b>0.86%</b>	<b>145</b>	<b>1 418</b>	<b>74</b>	<b>121</b>	<b>61</b>

Work done during a brief 15-day prospecting program identified at least five new zones that returned grades of up to 806 ppm Ta<sub>2</sub>O<sub>5</sub> and 2.27% Li<sub>2</sub>O in grab samples. All samples were taken from an area of approximately 10 square kilometres, at spacings of from a few metres to a few kilometres. (Grab samples are selective by nature and are unlikely to represent average grades of the deposits). All the results can be found in the news release dated October 27, 2011

The Company has also awarded a contract to GENIVAR Inc. (GENIVAR) of Montreal, Quebec, to carry out an Environmental Impact Assessment (EIA) for the Rose Tantalum-Lithium project (Rose project). The study, which is expected to be completed in 2014, will cover all the environmental concerns and constraints associated with the Rose project, as well as the proposed mitigation measures.

**The EIA will cover the following aspects:**

- Climate and Air Quality
- Noise and Vibrations
- Geology and Geomorphology
- Hydrogeology
- Hydrology and Hydraulic Conditions
- Water, Sediments and Benthos
- Soil Quality
- Vegetation
- Wildlife and bird inventories
- Wildlife and habitat
- Fish and Semi-Aquatic Populations and Habitat
- Land Use by Indigenous Peoples
- Economic and Social Environment
- Archaeology and Heritage
- Landscape

In keeping with its local approach, GENIVAR intends to involve the local Cree community in its field activities.

On November 21, 2011, the Company received the positive results of a Preliminary Economic Assessment ("PEA") for its Rose project in the James Bay Area of northern Quebec. Critical Elements is the sole owner of the Rose project. The PEA was conducted by GENIVAR in conjunction with BUMIGEME and InnovExplo.

**HIGHLIGHTS OF THE PRELIMINARY ECONOMIC ASSESSMENT:**

The financial analysis of the Rose Project was based on price forecasts of US \$260/kg (\$118/lb) for Ta<sub>2</sub>O<sub>5</sub> contained in a tantalite concentrate and US \$6,000/t for lithium carbonate (Li<sub>2</sub>CO<sub>3</sub>).

The after-tax internal rate of return (IRR) for the Rose project is estimated at 25%, with a net present value (NPV) of CA \$279 million at an 8% discount rate. The payback period is estimated at 4.1 years. The pre-tax IRR is estimated at 33% and the NPV at \$488 million at a discount rate of 8%.

**NPV AS A FUNCTION OF DISCOUNT RATE  
Critical Elements Corporation - Rose Project**

DISCOUNT RATE	NPV (pre-tax)	NPV (after-tax)
0%	CA \$1,078,611,885	CA \$665,122,755
5.0%	CA \$651,789,479	CA \$387,145,131
8.0%	CA \$488,360,406	CA \$279,358,227
10.0%	CA \$403,744,658	CA \$223,097,949
12.0%	CA \$333,626,451	CA \$176,175,210

The economic analysis is based on a mine life of 17 years, estimated capital costs of CA \$268.6 million and operating costs of CA \$67.65/tonne of ore milled. Sustaining capital was estimated at CA \$36.8 million. Calculations include a 10% contingency and assumed parity between the Canadian and American dollars.

A sensitivity analysis was done on the Rose project cash flow using a ± 15% variance on commodities prices, capital expenditures, operating costs and the US\$/CA\$ exchange rate. It demonstrates that the Rose project is highly sensitive to changes in lithium carbonate price but has a low sensitivity to fluctuations in the tantalite concentrate price, operating costs and the US\$/CA\$ exchange rate.

**MINERAL RESOURCE ESTIMATE**

Based on an extensive drilling campaign (181 holes) carried out on the Rose property in 2010-2011, InnovExplo updated the mineral resource estimate using a cut-off grade of \$66/t. The mineral resource estimate took into consideration Li and Ta recovery and current market prices. A summary of the National Instrument 43-101-compliant mineral resources for the Rose Tantalum-Lithium deposit is as follows:

**MINERAL RESOURCES ESTIMATE - July 20, 2011**  
**Critical Elements Corporation - Rose Project**

Mineral Resource	Tonnes (x 1,000)	Li <sub>2</sub> O equivalent (%)	Li <sub>2</sub> O (%)	Ta <sub>2</sub> O <sub>5</sub> (ppm)	Rb (ppm)	Cs (ppm)	Be (ppm)	Ga (ppm)
Indicated Mineral Resource	26,500	1.30%	0.98%	163	2 343	92	128	66
Inferred Mineral Resource	10,700	1.14%	0.86%	145	1 418	74	121	61

**PEA**

The parameters used for the PEA include:

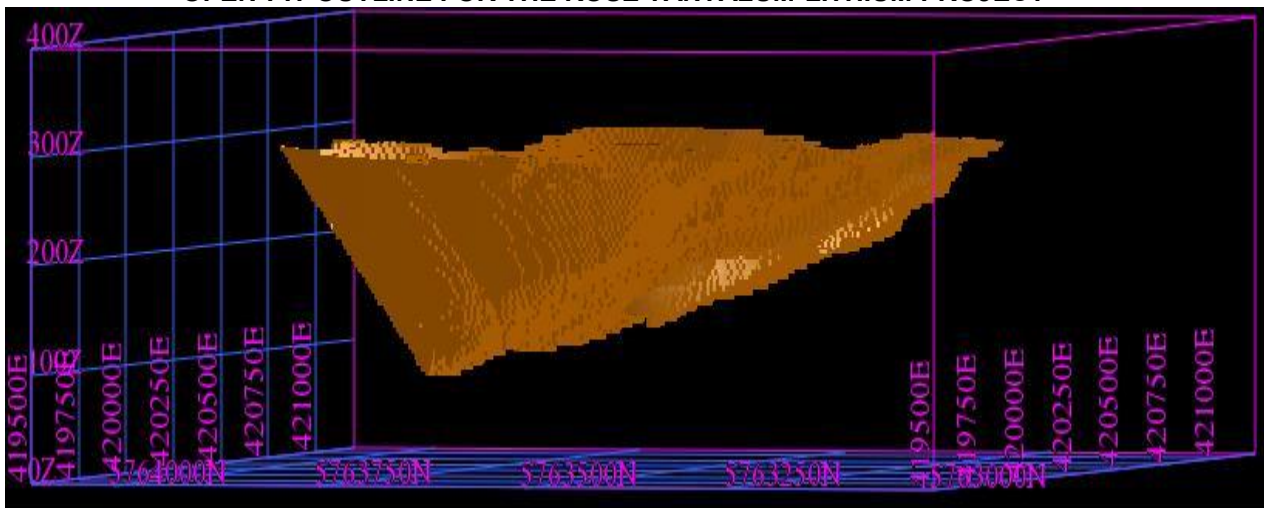
- A 1,500,000 tpy open-pit mine using diesel hydraulic equipment
- A concentrator at the Rose site (crushing, grinding, flotation circuits) with a nominal capacity of 4,600 tpd of ore at 90% availability
- A lithium carbonate plant at the Rose site to convert the lithium oxide ore (Li<sub>2</sub>O) to lithium carbonate (Li<sub>2</sub>CO<sub>3</sub>).

**MINING**

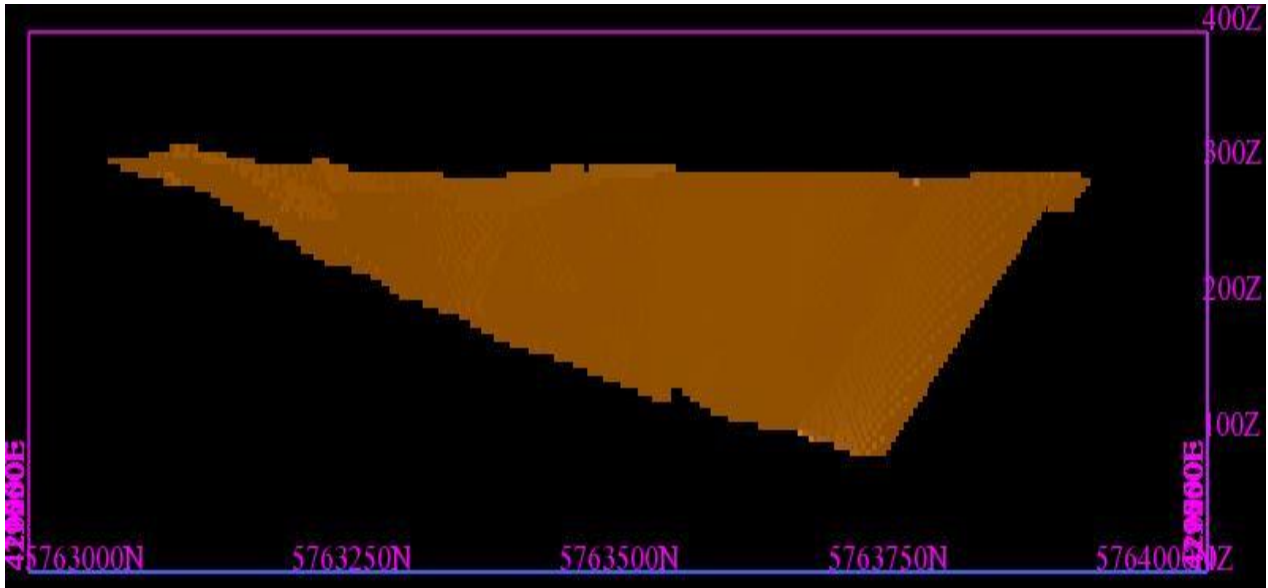
The Rose deposit is a thick, flat-lying multi structure located near surface. The ore will be mined using a conventional open-pit approach to a depth of 200 m. Whittle software, a numerical 3D mine optimization tool, was used to assess numerous scenarios. Parameters used to optimize the pit geometry and maximize profitability included a bench face angle of 50°, a triple benching arrangement, and an overall slope angle of 50°. The proposed open-pit design did not include geotechnical test results.

The following figure shows an isometric view of the open-pit outline retained for the PEA. The total amount of material to be mined is estimated at 193 Mt, consisting of 24 Mt of ore and 169 Mt of waste, for a stripping ratio of 7:1. Mining equipment will include down-the-hole ("DTH") drill rigs well suited to large-scale production work and capable of drilling holes ranging from 110 to 203 mm in diameter. 33-tonne hydraulic shovels and 27-tonne backhoes will be used to load ore and waste into 150-tonne trucks. The proposed pit will be approximately 1.8 km long by 0.8 km wide.

**OPEN-PIT OUTLINE FOR THE ROSE TANTALUM-LITHIUM PROJECT**



Looking South



**Looking North**

The facilities to be built on the Rose property include ore, waste and overburden stockpiles, a tailings pond, an explosives mixing plant, administrative offices, telecommunications facilities, mechanical shops, haulage and access roads and a water management system.

Based on a preliminary rock mass characterization that indicates that the ground is competent, and on preliminary overburden test results, a positive approach was adopted in the design of the various stockpiles, the tailings management facility and the mine closure plan.

The proposed mining plan includes drainage of two small lakes and the construction of a retaining dyke across a third lake.

Talks have been initiated with Hydro-Québec concerning the relocation of transmission towers that currently cross the Rose property.

#### **MINERAL PROCESSING**

A standard flotation process will be used to concentrate the lithium and tantalum ores into a high-grade mixed concentrate. The tantalite will be separated from this concentrate by high gradient magnetic separation. The non-magnetic fraction containing the lithium ore (spodumene) will be treated to produce pure lithium carbonate (99.5%  $\text{Li}_2\text{CO}_3$ ) using the same industrial process employed at the Quebec Lithium mine while it was part of the Sullivan Mining Group in the 1960s, and later refined by the Quebec Ministry of Natural Resources and Wildlife's Centre de Recherches Minérales (CRM).

#### **ENVIRONMENTAL IMPACT ASSESSMENT**

Initial site characterization programs have already been done at the Rose project site. A number of meetings have also been held with the local communities, and further discussions are planned.

Unusually, preliminary results from the environmental impact study were available while the PEA was being carried out. This information was used to minimize the ecological footprint of the project infrastructure.

#### **CAPITAL COSTS**

Capital and operating costs were estimated in Canadian dollars. An economic analysis was carried out by means of an undiscounted cash flow analysis expressed in constant dollars on a pre-tax and after-tax basis. Pre-production costs for the Rose project are estimated at CA \$268.6 million and include all the facilities listed under the Mining and Mineral Processing sections of this MD&A.



The total quantity of payable commodities is estimated at 1.6 Mkg Ta<sub>2</sub>O<sub>5</sub> (1.3 Mkg of tantalum) and 452 Mkg Li<sub>2</sub>CO<sub>3</sub> (85 Mkg of lithium). The following table presents a summary of the major criteria applicable to the Rose project.

### ROSE PROJECT CRITERIA

Item	Unit	Quantity
<b>Production including dilution</b>		
Ta-Li bearing ore (pit only)	tonnes	24,260,534
<b>Diluted metal grades</b>		
Tantalum	ppm	108
Lithium	ppm	4,131
Ta <sub>2</sub> O <sub>5</sub>	ppm	132
Li <sub>2</sub> O	%	0.89
<b>Plant overall recoveries</b>		
Tantalum	%	50
Lithium	%	84.8
<b>Total payable commodities produced</b>		
Ta <sub>2</sub> O <sub>5</sub>	'000 kg	1,597
Li <sub>2</sub> CO <sub>3</sub>	'000 kg	452,306
Tantalum	'000 kg	1,308
Lithium	'000 kg	84,981
<b>Preproduction capital costs (contingencies included)</b>		
Site preparation	CA\$ '000	22,102
Mining equipment and development	CA\$ '000	55,312
Power and indirect costs	CA\$ '000	62,590
Surface facilities	CA\$ '000	128,581
<b>Total preproduction costs</b>	<b>CA\$ '000</b>	<b>268,584</b>
<b>Sustaining capital over 17 years</b>	<b>CA\$ '000</b>	<b>36,818</b>

Revenues generated by the recovery of rubidium (Rb), cesium (Cs), beryllium (Be) and gallium (Ga) were not factored into the estimated revenues stream for the Rose project considered in the PEA.

#### **OPERATING COSTS**

Operating costs are estimated at CA \$67.65 per tonne of ore milled and comprise:

- CA \$24.25 per tonne of ore milled for mining cost;
- CA \$7.17 per tonne of ore milled for general and administrative expenses;
- CA \$36.23 per tonne of ore milled for mineral processing (concentrator and lithium carbonate plant).

A sensitivity analysis was done on the Rose project cash flow using a ± 15% variance on commodities prices, capital expenditures, operating costs and US\$/CA\$ exchange rate. It demonstrates that the Rose project is highly sensitive to changes in lithium carbonate price and has a low sensitivity to fluctuations in the tantalite concentrate price, operating costs and the US\$/CA\$ exchange rate.

On January 17, 2012, the Company announced that it had decided to proceed directly to feasibility study without doing a prefeasibility study, on the basis of the positive results of the Preliminary Economic Assessment (PEA) published on December 21, 2011.

On November 12, 2012, the Company announced the signing in Val-d'Or (Québec) of a pre-development agreement ("PDA") with the Grand Council of the Crees (Eeyou Istchee), the Cree Regional Authority and the Cree First Nation of Eastmain regarding the Company's development activities on its Rose Tantalum-Lithium deposit, located in James Bay, Québec.

Through this agreement, the parties have agreed to promote a cooperative and mutually respectful relationship concerning the exploration and pre-development activities of the Company in respect of the project. Critical Elements has undertaken to provide preferential treatment to Cree enterprises in the awarding of certain contracts for the supply of goods. The Crees have agreed to cooperate with the Company in the preparation of all necessary environmental and social impact assessment studies for all components of the project. The Crees have also committed to use their best efforts to ensure that the project proceeds through the environmental and social assessment process provided for in the *James Bay and Northern Quebec Agreement*, and, if the environmental and social concerns are met, to assist Critical Elements Corporation in obtaining the required governmental approvals.

Finally, the parties agreed to pursue discussions to create and sign an impacts and benefits agreement for the Rose tantalum-lithium project.

On February 12, 2013, the Company announced the discovery of a new zone that appears to be the extension of the JR zone. The new outcrop was discovered more than 500 metres west of the main JR zone. This extension is substantial, and channel sampling on the new zone returned high lithium and tantalum values. Full results are as follows:

Year	Channel name	Location		Azimuth	Length (m)	Li <sub>2</sub> O (%)	Ta <sub>2</sub> O <sub>5</sub> ppm (g/t)
		Easting	Northing				
2012	JR ext1	421287	5764652	270	5.00	0.9447	226
2012	JR ext2	421274	5764650	270	10.00	1.0763	215

All samples were sent for analysis in sealed containers to the ALS Chemex laboratory in Val-d'Or by employees of the Company. ALS Chemex is the laboratory used for analysis of all samples from programs on the Rose property. The samples are weighed and identified prior to sample preparation. The samples are crushed to 70% minus 2 mm, then separated and pulverized to 85% passing 75 µm. All samples are analyzed using ICP-MS, with full analysis for 47 elements.

On September 5, 2013, the Company reported the latest results of the optimization metallurgical program underway at SGS Canada Inc. (Lakefield) for its Rose deposit in James Bay, Quebec. Phase 1 of the study was carried out on a representative sample from Rose deposit, as well as samples from across the deposit to test its variability. The goal of Phase 1 was to optimize the process flowsheet for the production of spodumene concentrate with a minimum purity of 6% LiO<sub>2</sub> and about 90% lithium recovery for the hydrometallurgy operation.

The program has resulted in the successful optimization of recovery rates and grades of Li<sub>2</sub>O in the concentrate, with an average recovery of 90.88% at 6.20% Li<sub>2</sub>O in batch flotation tests (see table below), but most importantly, the flow sheet has been simplified significantly. Moreover, the reagents used in the optimization program are significantly cheaper. This should dramatically reduce the mill construction costs (CAPEX) and the operating costs (OPEX) to produce the Li<sub>2</sub>O concentrate.

Test No.	Assay %	Distribution %
	Li <sub>2</sub> O	Li
F11	6.06	90.1
F12	6.12	90.7
F13	6.43	91.9
<b>AVERAGE</b>	<b>6.20</b>	<b>90.88</b>

In addition to recovery and grade testing, the iron content of spodumene grains and the flotation concentrate as a whole have been determined. Analytical results indicated that the average spodumene grain contains 0.13% Fe<sub>2</sub>O<sub>3</sub> as solid solution in its crystal structure. To the best of our knowledge, this is the lowest spodumene iron substitution that has been seen in Quebec and Ontario lithium deposits. As a result, the flotation concentrate contained <0.3% Fe<sub>2</sub>O<sub>3</sub> as a whole. Due to the low iron content of spodumene as solid solution, the lithium concentrate may also be appropriate for use in the ceramics industry. The roasted concentrate is white as opposed to the light reddish color normally seen with spodumene concentrates containing high iron.

A small batch of flotation concentrate has been collected and roasted and submitted for hydrometallurgical testing to start the carbonation optimization program. Multiple tests have been conducted for tantalite recovery.

The next stage, Phase 2 of the program, was aimed at optimizing the purity of the lithium carbonate produced by bicarbonation to create a final flowsheet. Another objective was to improve the recovery of tantalum as a by-product, currently at about 60%. The final flowsheet will be used to advance the pilot plant for the feasibility study. Some of the Phase 2 results, from the tantalum metallurgical optimization program, carried out by SGS Canada Inc. of Lakefield on the Rose deposit in James Bay, Quebec, were announced on September 23, 2013.

This program has resulted in significant tantalite optimization recoveries, achieving tantalum recoveries of up to **84%** with a concentration grade of 11,713 g/t Ta (14,303 g/t Ta<sub>2</sub>O<sub>5</sub>) in laboratory batch tests using wet high intensity magnetic separation (WHIMS). The average Ta recovery rate for the program stands at **77.6%** with a concentration grade of 10,700 g/t Ta (13,066 g/t Ta<sub>2</sub>O<sub>5</sub>) in batch magnetic separation tests (see table below).

The Corporation expects these results to dramatically increase the projected amount of tantalite (Ta<sub>2</sub>O<sub>5</sub>) produced from the Rose project, although additional testing is needed to confirm this with greater certainty. The initial economic numbers from the December 2011 PEA analysis were based on a tantalum recovery of 50%. The latest results indicate a **27.6%** increase in average recovery compared to the PEA figures, which could potentially mean more than **100,000** additional pounds of tantalite (Ta<sub>2</sub>O<sub>5</sub>) produced per year. The estimated final recovery rate and quantity of tantalite to be produced will be better defined by pilot plant testing, as well as in the upcoming feasibility study.

#### Results of Batch Magnetic Separation Tests to Recover Ta Concentrate

Test No.	Assay	Assay	Distribution %
	Ta g/t	Ta <sub>2</sub> O <sub>5</sub> g/t	Ta
F10	11,713	14,303	80.3
F11	10,388	12,685	84.0
F12	11,200	13,676	73.9
F13	10,200	12,455	77.6
F14	10,000	12,211	72.2
<b>AVERAGE</b>	<b>10,700</b>	<b>13,066</b>	<b>77.6</b>

The tests were carried out on a representative sample from the Rose deposit, which lies on surface.

The recent results from the optimization program are very positive and will be used to finalize the flow sheet for the pilot plant program. The pilot plant program will produce enough material to proceed with

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a flotation or other suitable beneficiation methods aimed at increasing the grade of the tantalite concentrate.

### **Work done during the period**

Metallurgical work was done during the quarter to optimize the mineral processing circuit in preparation for pilot plant testing.

The Critical Elements Corporation team continues discussions in recent months with a number of potential buyers of lithium carbonate and tantalum. The Corporation is presently negotiating clauses relating to long-term sales and risk-sharing with buyers.

### **BRITISH COLUMBIA PROPERTIES**

#### **Property Description**

The British Columbia Rare Earth properties consist of 43 claims covering an area of 204.02 km<sup>2</sup> in the following four separate blocks: Trident-Kin, Hiren, Landmark and IRC. These properties lie in southeastern British Columbia, along what is known as the Rocky Mountain Rare Metal Belt. The bulk of these properties are composed of nepheline syenite.

The airborne survey is now complete and the Company has received preliminary airborne Mag and radiometrics data from Aeroquest, and is actively using this data to plan traverses for Hiren, Trident, Kin and IRC.

The program has consisted of the collection of silt-stream samples for the Kin, Trident and Hiren properties. The silt program went very well, with an average sample density of 1.6 silts per square kilometre, resulting in a total of 312 silt samples. A portable XRF was used at the field camp to analyse the silt samples, and greatly assisted the direction of the 2011 field traverses.

Both the airborne data and infield XRF silt-stream analysis are proving of great assistance to the program. The traverses at the Kin property have revealed significant new in-situ mineralization discoveries. The mineralization is in the form of molybdenite, columbite or allanite and phosphate mineralization associated with aplitic granite, syenite and quartz veins. Most of these mineralized systems are associated with thorium radiometric anomalies, with very similar characteristics to the mineralization noted in the high-grade REE boulder samples collected in 2010, which returned up to 5.26% TREE and 2.7% Nb<sub>2</sub>O<sub>5</sub>. Similar ±5-metre wide molybdenite-bearing sills have also been discovered this season at the Trident property.

On February 13, 2012, the Company announced the results of its 2011 exploration program at its Terres Rares properties in British Columbia. The \$650,000 exploration program included airborne magnetic and radiometry surveys of the Trident-Kin, Hiren and IRC properties and helicopter-assisted stream-silt geochemical surveys of the Trident-Kin, Hiren and Munroe properties, followed by prospecting, regional mapping and rock sampling on the Trident-Kin, Hiren and IRC properties.

The results for the Trident-Kin property were very encouraging, with the discovery of new in situ mineralization as follow-up to the 2010 discovery of high-grade REE boulder samples that returned up to 5.26% TREE and 2.7% Nb<sub>2</sub>O<sub>5</sub> (see press release dated December 15, 2010). The 2011 exploration program has greatly increased the known extent of the Trident Mountain syenite, from 15 linear km to over 25 km, across the contiguous Trident and Kin properties. The syenite sills, which range in thickness from 5 to 300 metres, have associated economic potential for rare earth elements (REE), niobium (Nb) and molybdenum (Mo). The 2011 assay results covering a 1.5 kilometre linear stretch of the syenite trace on the Trident property, plus another 3.5 linear kilometres of the syenite on the Kin property, are very encouraging.

The best values from the 23 samples of rock collected along the 1.5 km trace on the Trident property were 5.93% TREE, 0.246% Nb<sub>2</sub>O<sub>5</sub> and >2 000 ppm Mo (from different samples). Twenty-two percent

of the 23 samples returned over 1.0% TREE, and four samples returned over 0.1% Nb<sub>2</sub>O<sub>5</sub>. The samples were distributed over a large area (700 m x 700 m) with significant downdip (downhill) areas still to be prospected.

At the Kin property, a total of 43 rock samples (including 23 channel samples) were collected from the Amy-Carmen quartz syenite trend, covering a strike length of about 1 km. The samples returned results of up to 8.66% TREE, 3.02% Nb<sub>2</sub>O<sub>5</sub> and 62,900 ppm Mo. Some 45% of the 43 samples returned over 0.5% TREE, with the top 11 samples all returned better than 1.0% TREE. Fifty-three percent of the 43 samples returned over 0.1% Nb<sub>2</sub>O<sub>5</sub>. Other elements of interest from the Amy-Carmen include values of up to 0.12% HREE+Y, 166 g/t Ag, 181 g/t Ta and 1,417 ppm Pb. In the area of the Amy-Carmen channel samples, tight folding of the strata has resulted in fold repetition of the syenite sills, and generated a repeated stack of mineralized syenite approximately 250 m wide. The table below shows the values returned by the representative channel samples from this area.

<b>Channel 1: MKKNR016 to MKKNR029, over ~10 m</b>			
	<b>%TREE</b>	<b>% Nb<sub>2</sub>O<sub>5</sub></b>	<b>PPM Mo</b>
Min.	0.015	0.023	11
Max.	0.874	0.627	853
Average	<b>0.296</b>	<b>0.171</b>	<b>214</b>
n	14	14	14
<b>Channel 2: MKKNR030 to MKKNR033. over 4 m</b>			
	<b>%TREE</b>	<b>% Nb<sub>2</sub>O<sub>5</sub></b>	<b>PPM Mo</b>
Min.	0.143	0.046	15.2
Max.	1.675	0.434	62,900
Average	<b>1.014</b>	<b>0.156</b>	<b>26,613</b>
n	4	4	4
<b>Channel 4: MKKNR036 to MKKNR041. over 4 m</b>			
	<b>%TREE</b>	<b>% Nb<sub>2</sub>O<sub>5</sub></b>	<b>PPM Mo</b>
Min.	0.009	0.005	7.2
Max.	3.163	1.774	200
Average	<b>0.793</b>	<b>0.674</b>	<b>114</b>
n	5	5	5

A second, parallel trend of mineralized syenite, quartz veins and associated alteration occurs approximately 500 m south of the Amy-Carmen trend. This parallel zone, dubbed the "Carmen", consists of a broad zone (~250 metres wide) of elevated radiometric response. Results from nine samples collected over a 1-km strike length of this zone returned up to 12.63 % TREE, 4.97 % Nb, 16,4 ppm Mo and 0.50% HREE+Y. The 2011 work resulted in the discovery of very significant REE, niobium and molybdenum mineralization traced over a 5-km strike length. The continuous mineralization lies within a very promising 25-kilometre long alkaline intrusion sequence that remains relatively unexplored.

#### **Work done during the period**

No exploration work was carried out on the property during the period covered by this MD&A.

During the year ended August 31, 2013, the Company decided to impair this property to focus its energies and capital on its most promising properties. The Company nevertheless retains all its property rights.

## Person In Charge of Technical Disclosure

Jean-Sebastien Lavallee (OGQ #773), geologist, shareholder, President and Chief Executive Officer of the Company and a Qualified Person under *NI 43-101 on standards of disclosure for mineral projects*, has written and approved the technical content of this MD&A for the Rose tantalum-lithium, Matchi-Manitou, Croinor and British Columbia properties.

## Results of Operations

Critical Elements anticipates that, for the foreseeable future, quarterly results of operations will primarily be impacted by several factors, including the timing of exploration and the efforts and timing of expenditures related to the development of the Company. Due to fluctuations in these factors, the Company believes that the period-to-period comparisons of operating results are not a good indication of its future performance.

The following discussion and analysis are based on Critical Elements' results of operations for the three-month period ended November 30, 2013. The selected financial information below was taken from the unaudited condensed interim financial statements for each of the three-month periods shown.

### FINANCIAL HIGHLIGHTS

	November 30 (3 months)	
	2013	2012
Revenues	\$ 1,979	\$ 686
General administrative expenses	\$ 37,656	\$ 45,071
Registration, listing fees and shareholders'	\$ 30,867	\$ 29,393
Professional and consultant fees	\$ 179,442	\$ 300,378
Stock-based compensation	\$ 181,456	\$ -
Depreciation of property, plant and equipment	\$ 1,772	\$ 2,325
Part XII.6 taxes	\$ -	\$ -
Exchange loss	\$ -	\$ 596
Write-off due to the abandonment of exploration and evaluation assets	\$ -	\$ -
Impairment of exploration and evaluation assets	\$ -	\$ -
Loss before income taxes	\$ (429,214)	\$ (377,077)
Deferred income and mining taxes	\$ 56,326	\$ (102,475)
Total comprehensive loss for the period	\$ (485,540)	\$ (274,602)
Cash & cash equivalents	\$ 462,978	\$ 232,623

### Revenues

Revenues for the three-month period ended November 30, 2013, amounted to \$1,979 (\$686 - 2012) and consisted of interest revenues and amounts for administrative services rebilled out to other companies. Given its status as a mining exploration company, Critical Elements does not generate any steady income, and must finance its activities by issuing equity.

### General Administrative Expenses

General administrative expenses for the three-month period ended November 30, 2013, consisted mainly of general office expenditures, travel expenses, promotional activities and the Company's claim renewal expenses. The increase was mainly due to higher claim renewal and to lower travel expenses and general office expenditures.

## Registration, Listing Fees and Shareholder Information

Registration, listing fees and shareholder information expenses for the three-month period ended November 30, 2013, consisted mainly of expenditures of a legal and regulatory nature incurred to comply with the requirements of the securities commission. No material changes have occurred during the period.

## Professional and Consultant Fees

Professional and consulting fees for the three-month ended November 30, 2013, consisted primarily of expenses of a legal and accounting nature, as well as audit, business development and management expenses. The decrease of \$120,936 from the previous period resulted from lower consulting and professional fees.

## Stock-Based Compensation

Share-based payments and compensation for the three-month period ended November 30, 2013, represented the charge related to the value of the 300,000 stock options granted to directors, officers and consultants during the quarter, as well as recognition of the charge for the 1,800,000 stock options granted in the previous quarter (Nil in November 30, 2012). A compensation charge of \$181,456 was therefore assigned in relation to the stock options granted during the period, using the Black-Scholes model.

The selected financial information below was taken from Critical Elements' unaudited financial statements for each of the following quarters:

\$000s of \$ except for share data	Nov. 30 2013	August 31 2013	May 31 2013	Feb. 29 2013	Nov. 30 2012	August 31 2012	May 31 2012	Feb. 29 2012	Nov. 30 2011
Revenues	2	4	1	5	-	2	4	9	5
Net profit (loss)	(485)	(938)	(834)	(267)	(329)	(144)	(754)	(431)	(347)
Basic and diluted net loss per share	\$ (0.00)	\$ (0.01)	\$ (0.01)	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ (0.01)	\$ (0.00)	\$ (0.00)

## LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents as at November 30, 2013, totalled \$462,978 compared to \$232,623 as at November 30, 2012. It is management's intention to secure further capital funding in the form of equity to support current and future exploration and evaluation assets development.

Date	Financing		Commercial Goals
March 2013	Common shares	\$604,000	Working Capital and exploration expenditures

For the next year, the Company has budgeted \$500,000 for administrative expenses. Management is of the opinion that, even if it is unable to raise additional equity financing, the Company will be able to meet its current exploration obligations and keep its properties in good standing for the next 12 months. Advanced exploration of some of the mineral properties would require substantially more financial resources. There is no assurance that such financing will be available when required, or under terms that are favourable to Critical Elements. The Company may also select to advance the exploration and development of exploration and evaluation assets through joint ventures. Management is currently considering opportunities for further financing.

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## CASH FLOWS

	November 30 (3 months)	
	2013	2012
Operating activities	\$ (312,728)	\$ (480,318)
Financing activities	\$ 135,000	\$ -
Investing activities	\$ 77,369	\$ 917
	\$ (100,359)	\$ (479,401)
Cash & cash equivalents	\$ 462,978	\$ 232,623

During the three-month period ended November 30, 2013, funds used for operating activities were spent primarily on improving operations and promotion of the Company.

During the three-month period ended November 30, 2013, the Company's financing activities consisted of the exercise of options.

During the three-month period ended November 30, 2013, investment activities consisted primarily of exploration to develop the Rose tantalum-lithium property and the receipt of a tax credit.

## CONTRACTUAL OBLIGATIONS AND OFF-BALANCE-SHEET ARRANGEMENTS

### Commitments with a Board Member

A) In March 2013, the Company retained the services of Paradox Public Relations ("Paradox") to handle public relations. Paradox focuses on developing and expanding the Company's communications with the financial community through a full investor relations program. The services provided include marketing to the financial community, an inbound email service, the use of an exclusive Paradox database, organization of meetings and presentations and service calls on behalf of the Company. The agreement covers a 24-month period at a monthly fee of \$7,000. Paradox also received 450,000 share purchase options to purchase the same number of common shares of the Company at a price of \$0.30 per share for a 2 year period.

### Other Commitments

B) In February 2009, the Company signed a joint venture agreement with the publicly listed company X-Ore Resources Inc. ("X-Ore"), a subsidiary of Blue Note Mining Inc., whereby each joint operator participate to 50% of the exploration and development work and, if appropriate, to put a mine into production on the Croinor 1 property.

C) In June 2011, the Company signed a lease contract for its Montreal office, expiring in June 2014. Minimum payments of \$31,598 are payable within 12 months.

D) In March 2013, the Company retained the services of Mackie Research Capital ("Mackie") to provide strategic advice for the development of its Rose Tantalum-Lithium mining project. The agreement covers a 12-month period at a monthly fee of \$5,000. Paradox also received 250,000 share purchase options to purchase the same number of common shares of the Company at a price of \$0.20 per share for a 2 year period.



## ROYALTIES ON THE MINING PROPERTIES

PROPERTY	ROYALTY		DESCRIPTION
	Name	Percentage	
Rose Tantalum-Lithium	Jean-Sébastien Lavallée	37.5%	2% NSR of which 1% may be purchased for an amount of \$1,000,000
	Jean-Raymond Lavallée	37.5%	
	Fiducie familiale St-Georges	25%	
Matchi-Manitou	Soquem	100%	1% NSR
Kin, Trident, IRC, Munroe, Hiren and Lindmark	Zimtu Capital Corp.	50%	2% NSR of which 1% may be purchased for an amount of \$1,000,000 and the other 1% may be purchased for an amount of \$5,000,000
	Cathro Resources Corp.	25%	
	Cazador Resources Ltd	25%	
Weres, Seigneurie, Sophie, Reine, J6L1, Lac Sevigny-NE, Gatineau and Melasse	Gemme Manicouagan	50%	1,5% NSR of which 0.75% may be purchased for an amount of \$500,000 and the other 0.75% may be purchased for an amount of \$5,000,000
	Mario Bourque	25%	
	Guy Barrette	25%	

## RELATED-PARTY TRANSACTIONS

### Transactions with key Executives

During the period, the Company incurred \$7,956 (\$9,061 in 2012) in professional and consultants fees and \$103 (\$337 in 2012) in general administrative expenses with its chief financial officer. In relation with these transactions, No amounts were payable in relation to these transactions as at November 30, 2013 (\$5,000 in 2012).

During the period, the Company incurred \$3,060 (\$4,320 in 2012) in exploration and evaluation expenditures and \$51,016 (\$92,968 in 2012) in general administrative expenses with Consul-Teck Exploration Minière Inc., a company of which the president and chief executive officer is a shareholder, and which is controlled by a director of the Corporation. In relation with these transactions, No amounts were payable in relation to these transactions as at November 30, 2013 (\$286,028 in 2012).

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

### Transactions with Board members

During the period, the Company incurred \$21,000 in professional and consultants fees (\$21,000 in 2012) with Paradox Public Relations, a company controlled by a director of the Company. No amounts were payable in relation to these transactions as at November 30, 2013 (\$21,000 in 2012).

During the comparative period, the Company incurred \$61,686 in professional and consultants fees with Cansource International Enterprise, a company controlled by a former director of the Company.

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

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## **SIGNIFICANT ACCOUNTING POLICIES**

### **Financial Statements**

The financial statements were prepared in accordance with IFRS.

### **Currency Conversion**

The financial statements of the Company are reported in Canadian dollars, which is the functional currency. Transactions in foreign currencies are translated at the exchange rates prevailing at the time they are made. At each closing date, assets and liabilities denominated in foreign currencies are converted at closing rates. Exchange differences resulting from transactions are recorded in the statement of the net loss for the period.

### **Cash and Cash Equivalents**

The Company's policy is to present cash and temporary investments having a term of three months or less from the acquisition date in cash and cash equivalents.

### **Refundable credit on mining duties and refundable tax credit related to resources**

The Company is eligible for a refundable credit on mining duties under the Québec *Mining Duties Act*. This refundable credit on mining duties is equal to 16% (15% before January 1, 2012 and 12% before January 1, 2011) applicable on 50% of the eligible expenses. The accounting treatment for refundable credit on mining duties depends on management's intention to go into production in the future or rather to sell its mining properties to another mining producer once the technical feasibility and the economic viability of the properties have been demonstrated. This assessment is made at the level of each mining property.

In the first case, the credit on mining duties is recorded as an income tax recovery under IAS 12, Income Taxes, which generates at the same time a deferred tax liability and deferred tax expense since the exploration and evaluation assets have no more tax basis following the Company's election to claim the refundable credit.

In the second case, it is expected that no mining duties will be paid in the future and, accordingly, the credit on mining duties is recorded against exploration and evaluation assets.

Currently, it is management's intention to have the Company become a producer in the future, as such, credit on mining duties are recorded as an income tax recovery.

The Company is also eligible for a refundable tax credit related to resources for mining industry companies in relation to eligible expenses incurred. The refundable tax credit related to resources can represent up to 38.75% of the amount of eligible expenses incurred and is recorded as a government grant against exploration and evaluation assets.

Credits related to resources and credits for mining duties recognized against exploration and evaluation expenditures are recorded at fair value when there is reasonable assurance that they will be received and the Company will comply with the conditions associated with the grant. They are recognized in profit or loss on a systematic basis over the useful life of the related assets.

### **Exploration and Evaluation Assets**

All costs associated with property acquisition and exploration and evaluation activities are capitalized as exploration and evaluation assets. Costs that are capitalized are limited to costs related to acquisition and exploration and evaluation activities that can be associated with the discovery of

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specific mineral resources, and are not include costs related to production (extraction costs), and administrative expenses and other general indirect costs. Exploration and evaluation expenditures are capitalized when the following criteria are satisfied:

- are held for use in the production of mineral resources,
- the properties have been acquired and expenses have been incurred with the intention of being used on a continuing basis; and
- they are not intended for sale in the ordinary course of business.
- are held for use in the production of mineral resources,

The Company reconsiders periodically facts and circumstances in IFRS 6 that require testing exploration and evaluation assets for impairment. When facts and circumstances suggest that the carrying amount of exploration and evaluation assets may exceed its recoverable amount, the asset is tested for impairment. The recoverable amount is the higher of fair value less costs of disposal and value in use of the asset (present value of the future cash flows expected). When the recoverable amount of exploration and evaluation assets is less than the carrying amount, the carrying amount of the asset is reduced to its recoverable amount by recording an impairment loss. The carrying amount of exploration and evaluation assets do not necessarily represents current or future value.

The carrying amounts of mining properties and exploration and evaluation assets are assessed for impairment only when indicators of impairment exist, typically when one of the following circumstances apply:

- Exploration rights have or will expire in the near future;
- No future substantive exploration expenditures are budgeted;
- No commercially viable quantities are discovered and exploration and evaluation activities will be discontinued;
- Exploration and evaluation assets are unlikely to be fully recovered from successful development or sale.

### **Equipment**

Equipment are accounted for at cost less any accumulated impairment losses. Cost includes expenditures that are directly attributable to the acquisition of the asset. Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost can be measured reliably.

Amortization of equipment is calculated using declining method and at the following rates:

Computer equipment	40%
Office furniture	20%

### **Impairment of Non-financial Assets**

Non-financial assets are tested for recoverability whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. The recoverable amount is the higher of its fair value less costs of disposal and its value in use (present value of the future cash flows expected). An impairment loss is recognized when their carrying value exceeds the recoverable amount. The amount of the impairment loss is determined as the excess of the carrying value of the asset over its recoverable amount.

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## **Financial Instruments**

Financial instruments are classified in the following categories: held-to-maturity investments, available-for-sale, loans and receivables, financial assets and liabilities at fair value through profit or loss or financial liabilities measured at amortized cost.

The Company has the following categories of financial instruments:

### **Loans and receivables**

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are not held for trading purposes or available for sale. These assets are initially recognized at fair value plus directly attributable transaction costs and subsequently measured at amortized cost using the effective interest method. Cash and cash equivalents and other receivables are classified as loans and receivables.

### **Financial liabilities measured at amortized cost**

Financial liabilities measured at amortized cost are initially recognized at fair value less directly attributable transaction costs. Thereafter, they are measured at amortized cost using the effective interest method. Accounts payable and accrued liabilities are classified as financial liabilities measured at amortized cost.

## **Provisions**

In accordance with the applicable legal requirements, a provision for site restoration in respect of contaminated properties, and the related expense, is recognized when the properties is subjected to these requirements.

## **Share-based Compensation**

The Company accounts for share-based compensation over the vesting period of the share options. Share purchase options granted to employees and directors and the cost of services received are evaluated and recognized on fair value basis using the Black-Scholes option pricing model.

For transactions with parties other than employees, the Company measures the goods or services received, and the corresponding increase in equity, directly, at the fair value of the goods or services received, unless that fair value cannot be estimated reliably. When the Company cannot estimate reliably the fair value of the goods or services received, it measures their value, and the corresponding increase in equity, indirectly, by reference to the fair value of the equity instruments granted.

## **Flow-through Shares**

The Canadian tax legislation permits an entity to issue securities to investors whereby the deductions for tax purposes relating to resource expenditures may be claimed by the investors and not by the entity. These securities are referred to as flow-through shares. The Company finances a portion of its exploration programs with flow-through shares issue.

At the time of the share issuance, the Company allocates the proceeds between share capital and an obligation to deliver the tax deductions, which is recorded as a liability related to flow-through shares. The Company estimates the fair value of the liabilities related to flow-through shares using the residual method, deducting the quoted price of common share from the price of the flow-through shares at the date of the financing announcement.

A company may renounce the deductions for tax purposes under either what is referred to as the "general" method or the "look-back" method.

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When tax deductions are renounced under the general method, the Company records a deferred tax liability with a corresponding charge to income tax expense when Company has the expectation of renouncing and has capitalized the expenditures. At the same time the liability related to flow-through shares is reduced to zero, with a corresponding increase to other income related to flow-through shares.

When tax deductions are renounced under the look-back method, the Company records a deferred tax liability with a corresponding charge to income tax expense when expenditures are incurred and capitalized. At the same time, the liability related to flow-through shares would be reduced to zero, with a corresponding increase to other income related to flow-through shares.

### **Share Issuance Expenses**

Share issuance expenses are recorded as an increase of the deficit in the year in which they are incurred

### **Basic and Diluted Loss per Share**

The basic loss per share is calculated using the weighted average number of shares outstanding during the year. The diluted loss per share, which is calculated with the treasury method, is equal to the basic loss per share due to the anti-dilutive effect of share purchase options and warrants.

### **Other Revenues**

Other revenues are recognized when the amount of revenue can be measured reliably, it is probable that the economic benefits associated with the transaction will flow to the Company, the stage of completion of the transaction at year end can be measured reliably and the cost incurred for the transaction can be measured reliably.

### **Mining Properties Options Agreements**

Options on interests in mining properties acquired by the Company are recorded at the value of the consideration paid, including other benefit given up but excluding the commitment for future expenditures. Commitment for future expenditures does not meet the definition of a liability and thus are not accounted for. Expenditures are accounted for only when incurred by the Company.

When the Company sells interests in a mining property, it uses the carrying amount of the property of the option as the carrying amount for the portion of the property retained, and credits any cash consideration received and also fair value of other financial assets against the carrying of this portion (any excess is recognized as a gain in profit or loss).

### **Net Smelter Return (“NSR”) Royalties**

The NSR royalties are generally not accounted for when acquiring the mining property since they are deemed to be a contingent liability. Royalties are only accounted for when probable and can be measured with sufficient reliability.

### **Income Taxes**

Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities and the amounts used for taxation purposes except when deferred income results from an initial recognition of goodwill or from initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss at the time of the transaction.

Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they will reverse, based on the laws that have been enacted or substantively enacted by the end

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of the reporting year. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income or loss in the year that includes the enactment date.

A deferred tax asset is recognized for unused tax losses and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be used. At the end of each reporting period of financial information, the Company reassesses the tax deferred asset not recognized. Where appropriate, the Company records a tax deferred asset that had not been recorded previously to the extent it has become probable that future taxable profits will recover the tax deferred asset.

### **Segment Disclosures**

The Company currently operates in a single segment: the acquisition, exploration and development of mining properties. All of the Company's activities are conducted in Canada.

### **Significant Accounting Judgments, Estimates and Assumptions**

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the application of accounting policies as well as the carrying amount of assets, liabilities, revenues and expenses. Actual results may differ from those estimates.

The estimates and underlying assumptions are reviewed regularly. Any revision of accounting estimates are recognized in the period during which the estimates are revised and in future periods affected by these revisions.

- Impairment of exploration and evaluation assets (Note 4 and 6).
- Income taxes and deferred taxes (Note 4).
- Going concern (Note 1).
- Tax Credit Related to Resources and Mining Tax Credit (Note 4).

### **CERTIFICATION OF INTERIM FILINGS**

The President and Chief Executive Officer and Chief Financial Officer have signed the official basic certificates for venture issuers as required by *Regulation 52-109 respecting certification of disclosure in issuers' annual and interim filings*, confirming the review, absence of untrue or misleading information and fair presentation of the interim documents filed.

The President and Chief Executive Officer and Chief Financial Officer have confirmed that they have reviewed the interim financial statements and the interim MD&A (collectively referred to as the "interim filings") of the Company for the three-month period ended November 30, 2013.

The President and Chief Executive Officer and Chief Financial Officer have confirmed that, based on their knowledge, having exercised reasonable diligence, the interim filings do not contain any untrue statement of a material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it was made, with respect to the period covered by the interim filings

The President and Chief Executive Officer and Chief Financial Officer have confirmed that, based on their knowledge, having exercised reasonable diligence, the interim financial statements together with the other financial information included in the interim filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date and for the periods presented in the interim filings for these periods.

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## OTHER REQUIREMENTS IN THE MANAGEMENT DISCUSSION AND ANALYSIS

The following selected financial information data is derived from the audited consolidated financial statements at the periods indicated.

### EXPLORATION AND EVALUATION ASSETS

	November 30	
	2013	2012
Balance, beginning of period	\$ 13,600,255	\$ 14,550,507
Add:		
Drilling	-	625
Pre-feasibility and impact studies	-	(6,809)
Metallurgical test	17,302	
Analysis	-	947
General exploration expenses	4,560	4,320
	<u>21,862</u>	<u>(917)</u>
Balance, before deduction	<u>13,622,117</u>	<u>14,549,590</u>
Tax credit related to resources	<u>20,754</u>	
	<u>20,754</u>	<u>-</u>
Balance, end of period	<u>\$ 13,601,363</u>	<u>\$ 14,549,590</u>

### MATERIAL COMPONENTS

	November 30	
	2013	2012
<b>Statements of Comprehensive Income</b>		
Professional and consultant fees	\$ 179,442	\$ 300,378
Stock-based compensation	\$ 181,456	\$ -
<b>Statements of Financial Position</b>		
Exploration and evaluation assets	\$ 13,601,363	\$ 14,549,590

The following selected financial information is derived from the Company's unaudited financial statements.

**DISCLOSURE OF OUTSTANDING SHARE DATA (as at January 13, 2014)**

<b>Common shares outstanding:</b>	120,664,372	
<b>Options outstanding:</b>	6,705,000	
Average exercise price of:	\$ 0.19	
	<b>Number</b>	<b>Exercise</b>
<b>Expiry date</b>	<b>of shares</b>	<b>price</b>
		<b>\$</b>
March 2014	700,000	0.30
March 2014	100,000	0.32
March 2014	200,000	0.335
April 2014	200,000	0.15
October 2014	300,000	0.15
January 2015	355,000	0.20
March 2015	400,000	0.40
April 2015	450,000	0.335
August 2015	100,000	0.15
September 2015	300,000	0.205
March 2016	1,250,000	0.30
January 2017	550,000	0.15
August 2018	1,800,000	0.15
	<u>6,705,000</u>	
	<u><u>6,705,000</u></u>	
<b>Warrants outstanding :</b>	3,951,500	
Average exercise price of:	0.375 \$	
	<b>Number</b>	<b>Exercise</b>
<b>Expiry date</b>	<b>of shares</b>	<b>price</b>
		<b>\$</b>
February 2016	2,441,500	0.375
March 2016	1,510,000	0.375
	<u>3,951,500</u>	
	<u><u>3,951,500</u></u>	

**Risks and Uncertainties**

Critical Elements is subject to a variety of risks, some of which are described below. If any of the following risks occur, the Company's business, results of operations or financial condition could be adversely affected in a material manner.

**Exploration and mining risks.** The business of exploration for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. Unusual or unexpected formations, formation pressures, fires, power outages, labour disruptions, flooding, cave-ins, landslides and the inability to obtain suitable or adequate machinery, equipment or labour are other risks involved in the conduct of exploration programs. The Company from time to time increases its internal exploration and operating expertise with due advice from consultants and others as required. The economics of developing gold and other mineral properties is affected by many factors, including the cost of operations, variation of the grade of ore mined and fluctuations in the price of any minerals produced. There are no underground or surface plants or equipment on the Company's



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mineral properties, nor any known bodies of commercial ore. Programs conducted on the Company's mineral property would be an exploratory search for ore.

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

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

**Metal prices.** Even if the Company's exploration programs are successful, factors beyond the control of the Company may affect marketability of any minerals discovered. Metal prices have historically fluctuated widely and are affected by numerous factors beyond the Company's control, including international, economic and political trends, expectations for inflation, currency exchange fluctuations, interest rates, global or regional consumption patterns, speculative activities and worldwide production levels. The effect of these factors cannot accurately be predicted.

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

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

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

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

**Industry conditions.** Mining and milling operations are subject to government regulations. Operations may be affected in varying degrees by government regulations such as restrictions on production, price

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controls, tax increases, expropriation of property, pollution controls or changes in conditions under which minerals may be mined, milled or marketed. The marketability of minerals may be affected by numerous factors beyond the control of the Company, such as government regulations. The effect of these factors cannot be accurately determined.

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

**Future financing.** Completion of future programs may require additional financing, which may dilute the interests of existing shareholders.

**Key employees.** Management of the Company rests on a few key officers and members of the board of directors, the loss of any of whom could have a detrimental effect on its operations.

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