



CRITICAL ELEMENTS CORPORATION
(an exploration company)

MANAGEMENT DISCUSSION AND ANALYSIS
For the year ended August 31, 2012

MANAGEMENT DISCUSSION AND ANALYSIS

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 year ended August 31, 2012, and of the Company's financial condition and future prospects. This discussion and analysis supplements, but does not form part of, the audited consolidated financial statements for the year ended August 31, 2012. It reports on the Company's performance for the year ended August 31, 2012, and should therefore be read in conjunction with the audited financial statements as at 31 August 2012 and the notes thereto. This review was prepared by management with information available as at the date of the MD&A.

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

The Company's financial statements were previously prepared in accordance with Canadian generally accepted accounting principles (Canadian GAAP). The transition date from Canadian GAAP to IFRS was September 1, 2010. Canadian GAAP differs in some areas from 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. 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 December 21, 2012.

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 was involved in the acquisition, exploration and development of mining properties. The Company is active in Canada.

OVERALL PERFORMANCE

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

The property consists of 29 claims in Tavernier and Pershing townships, in the Abitibi region of Quebec.

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 Matchi-Manitou property.

CROINOR 1 – GOLD PROJECT

The Croinor project includes a mining lease of 90 hectares situated approximately 75 km by road east of Val-d'Or.

Having satisfied the required conditions, Critical Elements earned into a 50% joint venture interest in the project with X-Ore.

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.**

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.

Person Responsible for the Technical Information

Stéphane Dubois, P. Eng., Vice President, Operations for Blue Note Mining Inc., is the 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 Croinor 1 property.

ROSE TANTALUM-LITHIUM PROJECT

Property Description

The Rose Tantalum-Lithium property consists of 439 claims covering a total area of 228.51 km². 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% Li₂O) 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% Li₂O) 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% Li₂O, 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).

A total of 26,176 metres have been drilled on the property to date. The results obtained to date can be found on the Company's website and on Sedar.

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)	Li₂O equivalent (%)	Li₂O (%)	Ta₂O₅ (ppm)	Rb (ppm)	Cs (ppm)	Be (ppm)	Ga (ppm)
Indicated resource	26,500	1.30%	0.98%	163	2 343	92	128	66
Inferred resource	10,700	1.14%	0.86%	145	1 418	74	121	61

Work done during a brief 15-day prospecting program identified at least five new zones that returned grades of up to 806 ppm Ta₂O₅ and 2.27% Li₂O 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 by the summer of 2012, 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.

The Rose project is located in area designated by Quebec's Plan Nord, where the government is fast-tracking the construction of new infrastructure, accelerating permitting and assisting project financing on a case-by-case basis.

HIGHLIGHTS OF THE PRELIMINARY ECONOMIC ASSESSMENT:

The financial analysis of the Rose Project was based of price forecasts of US \$260/kg (\$118/lb) for Ta₂O₅ contained in a tantalite concentrate and US \$6,000/t for lithium carbonate (Li₂CO₃).

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 ₂ O equivalent (%)	Li ₂ O (%)	Ta ₂ O ₅ (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:

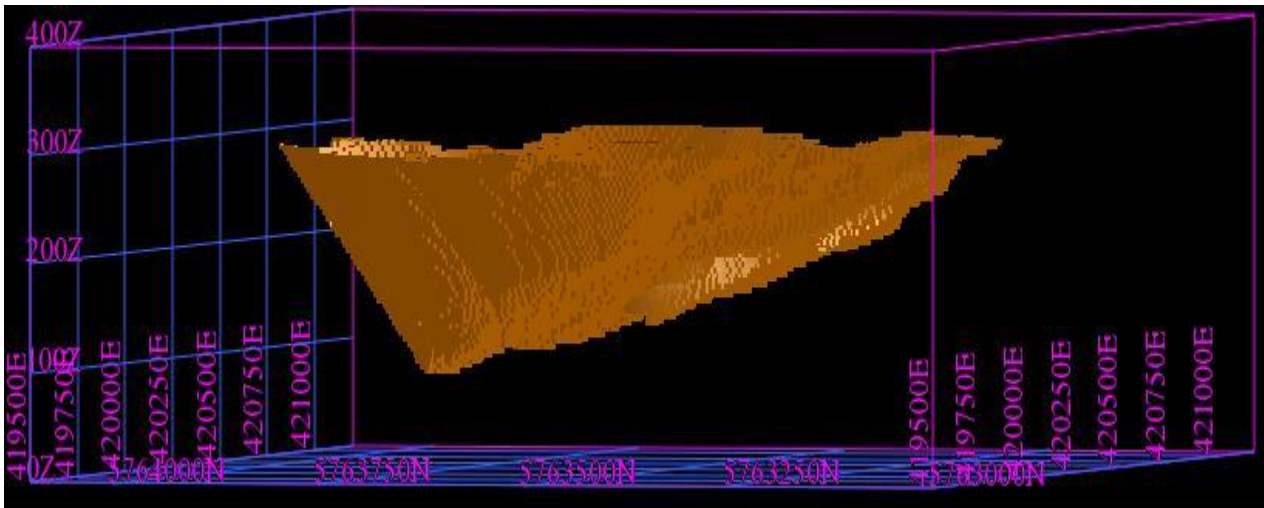
- A 1,500,000 tpy open-pit mine using diesel hydraulic equipment
- A concentrator at the Rose site (crushing, grinding, flotation circuits) with a nominal capacity of 4,600 tpd of ore at 90% availability
- A lithium carbonate plant at the Rose site to convert the lithium oxide ore (Li₂O) to lithium carbonate (Li₂CO₃).

MINING

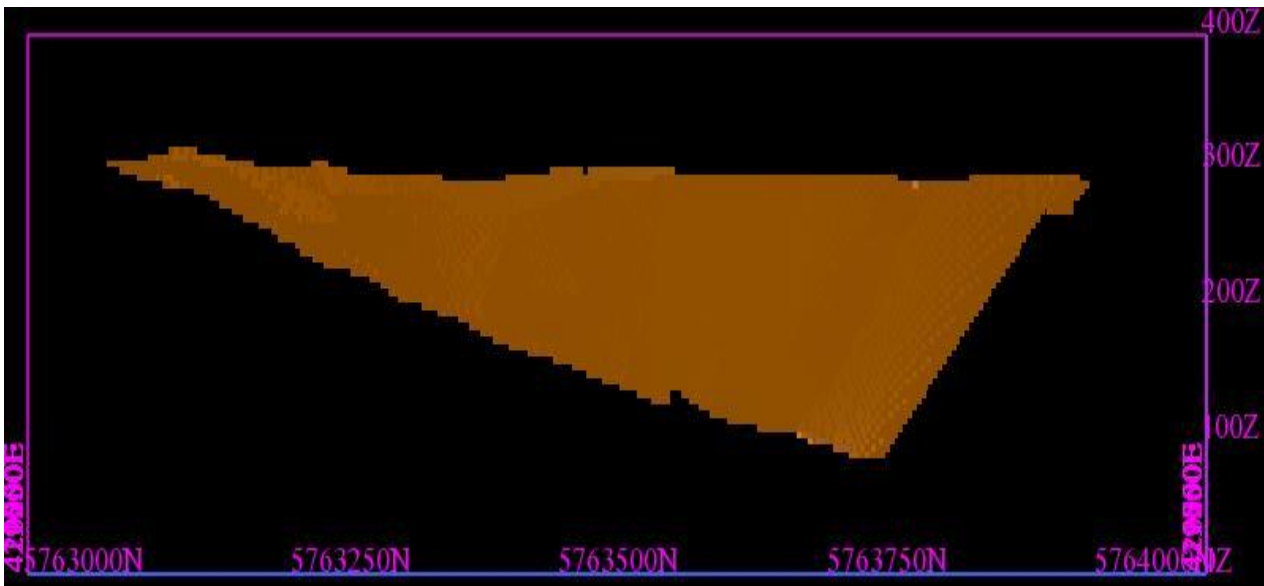
The Rose deposit is a thick, flat-lying multi structure located near surface. The ore will be mined using a conventional open-pit approach to a depth of 200 m. Whittle software, a numerical 3D mine optimization tool, was used to assess numerous scenarios. Parameters used to optimize the pit geometry 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% Li_2CO_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_2O_5 (1.3 Mkg of tantalum) and 452 Mkg Li_2CO_3 (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
<i>Production including dilution</i>		
Ta-Li bearing ore (pit only)	tonnes	24,260,534
<i>Diluted metal grades</i>		
Tantalum	ppm	108
Lithium	ppm	4,131
Ta_2O_5	ppm	132
Li_2O	%	0.89
<i>Plant overall recoveries</i>		
Tantalum	%	50
Lithium	%	84.8
<i>Total payable commodities produced</i>		
Ta_2O_5	'000 kg	1,597
Li_2CO_3	'000 kg	452,306
Tantalum	'000 kg	1,308
Lithium	'000 kg	84,981
<i>Preproduction capital costs (contingencies included)</i>		
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
Total preproduction costs	CA\$ '000	268,584
Sustaining capital over 17 years	CA\$ '000	36,818

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 $\pm 15\%$ 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. The Company is presently in the bidding process for the various aspects of the feasibility study.

Critical Elements Corporation also announced the appointment of Paul Bonneville, mining engineer, as the project manager. Mr. Bonneville will be responsible for supervising Critical Element Corporation's feasibility study on the Rose Project, and for subsequent project construction and development.

On January 30, 2012, the Company announced that it had hired AMBUCK Associates to lead the feasibility study and do mine design for the study.

The mine design study is an integral part of the feasibility study that includes:

- Reviewing the block model and importing it into optimization software, as well as analysis of the mine model for underground mine assessment and optimization;
- Analyzing and modelling the geotechnical design for open pit and underground mining. Recommendations will be used in the open pit slopes and underground mine and stope design. Stope/pillar designs will be looked at and modelled using 3D elastic modelling to assess stope/pillar stability;
- Open pit optimization, mine design, waste dump design, tailings site design, equipment selection and production scheduling.
- Underground mine design, mining method selection, equipment selection and detailed development and production scheduling.
- Determining mine infrastructure requirements for the open pit and underground, including, but not limited to: mine water pumping, ore transport systems, crushing and loading facilities, ventilation systems, underground maintenance facilities, fuel and lube systems, backfill facilities, concentrator and carbonate plant, mine process and discharge water handling systems and compressed air and electrical distribution.
- Determining surface infrastructure requirements, including site access, required site services and transportation corridors, and producing a site surface general layout drawing.
- Determining, using costing spreadsheets, mine capital and operating costs (approximately $\pm 10\text{-}15\%$ accuracy) on a yearly basis. Costs will be based on budget quotes obtained from suppliers for all major cost component items.
- Determining other mine service operating costs based on development and production schedules.
- Estimating electrical loads for the surface and underground mines. The power distribution system will be evaluated accordingly.

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- Determining surface infrastructure capital expenditures, in conjunction with Critical Elements personnel and its other consultants on surface infrastructure.
 - Completing cash-flow model.
 - Preparing the mining sections of the feasibility study report.

STUDY COORDINATION

Malcolm Buck of AMBUCK Associates will also act as consultant project coordinator. He will aid Paul Bonneville in ensuring that all aspects of the feasibility study are completed and the report prepared in compliance with NI 43-101, so it can be filed with the appropriate regulatory authorities.

On February 28, 2012, the Company retained the services of SECOR to carry out a strategic analysis in connection with the construction of a secondary transformation plant. SECOR will work in conjunction with the Critical Elements management team to determine the key success factors and optimal operating framework for the plant.

On April 18, 2012, the Company retained the services of GENIVAR to carry out a feasibility study on the surface facilities required to operate the Rose mine. The study will cover the engineering of the surface facilities, as well as estimates by category, including a budget compilation.

The main infrastructure elements covered by the mandate are: site preparation; buildings; power supply; communication and information technology systems; process and drinking water supply; waste water treatment and the septic system; tailings transportation from the mill to the tailings management facility and process water recirculation; the waste rock and overburden piles; diesel fuel, gas, oil and coal storage; explosives magazine; and the management of used oil and other used toxic products. The study will also include the preparation of a closure plan and an estimate of carbon emissions for the mining project

On April 25, 2012, the Company announced an update on the work done to produce lithium carbonate using the concentrate from the Rose deposit.

A 91% recovery of lithium carbonate has been achieved so far from the spodumene concentrate from the Rose deposit. It is expected that further test work will allow this recovery to be increased to the 94% range.

Particular emphasis has been put on the purity of the lithium carbonate produced. The intent is to have all of the lithium carbonate production meeting battery grade specifications. High purity lithium carbonate with a grade of 99.9% Li_2CO_3 has easily been achieved to date. The major impurities usually encountered in lithium carbonate produced from salars or the old sulfuric acid pugging process (magnesium, calcium, sodium, potassium) are absent or at level of less than 10 ppm for Rose. We do not expect any major difficulty in achieving a higher grade product. To merit the "battery-grade" designation, lithium carbonate product must be at least 99.5% pure.

Work is progressing also on the recovery of tantalum. Overall recovery achieved so far by flotation followed by a combination of high gradient magnetic separation and gravity has been 60%, 10% higher than used in the original PEA. Additional work is also being carried out for the production of pure tantalum oxide from the Rose deposit concentrate.

The mineralogy of the Rose deposit is highly homogeneous. Nevertheless, test work is continuing on the primary flotation of spodumene to characterize the variability (if any), including comminution from a series of composites from all parts of the deposit.

A flotation pilot plant will be run during the coming weeks to produce large quantities of spodumene concentrate to complete work on the production of high purity lithium carbonate and tantalum oxide. This work is required to produce the detailed specifications for the future production equipment as required for the feasibility study.

On August 30, 2012, the Company announced the results of the plant location study carried out by Montreal-based SECOR. The study confirming the Rose property as the most favourable site for the construction of its secondary transformation plant to produce lithium carbonate. The full study will be included in the final feasibility report, and will be available once the feasibility study is complete. Critical Elements is presently conducting a feasibility study on the construction of a mine and a processing plant to feed a secondary transformation plant that will produce lithium carbonate destined primarily for the manufacturing of batteries for electric cars, as well as for the energy storage market (electric, wind, solar and hydraulic power). SECOR was retained by Critical Elements to conduct a location study for its future carbonate processing plant for its Rose mining project. More specifically, SECOR was to determine whether there were other possible locations for the lithium carbonate secondary transformation plant than the Rose site.

On November 12, 2012, 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 have agreed to continue their discussions to develop and sign an Impacts and Benefits Agreement with respect to the Rose Tantalum-Lithium mining project.

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 property.

BRITISH COLUMBIA PROPERTIES

The British Columbia Rare Earth properties consist of 50 claims covering an area of 235.68 km² in the following seven separate blocks: Trident, Kin, Hiren, IRC, Claire, Landmark and Munroe. These properties lie in southeastern British Columbia, along what is known as the Rocky Mountain Rare Metal Belt. The bulk of these properties is 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.

To date, 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% Nb₂O₅. 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% Nb₂O₅ (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% Nb₂O₅ 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% Nb₂O₅. 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% Nb₂O₅ 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% Nb₂O₅. 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.

Channel 1:		MKKNR016 to MKKNR029, over ~10 m		
	%TREE	% Nb₂O₅	PPM Mo	
Min.	0.015	0.023	11	
Max.	0.874	0.627	853	
Average	0.296	0.171	214	
n	14	14	14	
Channel 2:		MKKNR030 to MKKNR033. over 4 m		
	%TREE	% Nb₂O₅	PPM Mo	
Min.	0.143	0.046	15.2	
Max.	1.675	0.434	62,900	
Average	1.014	0.156	26,613	
n	4	4	4	
Channel 4:		MKKNR036 to MKKNR041. over 4 m		
	%TREE	% Nb₂O₅	PPM Mo	
Min.	0.009	0.005	7.2	
Max.	3.163	1.774	200	
Average	0.793	0.674	114	
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.

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 British Columbia properties.

IFRS CHANGEOVER IMPACT

Adoption of IFRS had no incidence on the total amount of equity as at September 1st, 2010 but it reduced equity as at August 31, 2011 for an amount of \$27,293.

Pursuant to IFRS 2, each portion of an award with graded vesting options must be considered as a separate award with its own vesting date and fair value and must be recognized on that basis. As at September 1st, 2010, the cumulative impact of these changes resulted in decrease of capital stock for \$223,927, of deficit for \$358,477, of warrants for \$61,020 and contributed surplus for \$73,530. As at August 31, 2011, the cumulative impact of this change resulted in decrease of capital stock for \$347,204, of deficit for \$499,951, warrants for \$98,775, of contributed surplus for \$81,265 and increase of other liability for \$27,293.

For the year ended August 31, 2011, net loss and comprehensive loss was increased of an amount of \$549,001 coming from a) the recognition of a deferred creditor tax charge of \$133,739 in order to recognize the fulfillment of a portion of the obligation to transfer to investors tax deductions by the Company, b) the reversal of deferred income taxes related to flow-through shares issuance amounting to \$690,475 and c) adjustment related to fair value of share-based payments considering vesting period for a creditor amount of \$7,735.

Except for the change in net loss going from \$1,898,488 to \$2,447,489, the change in share-based payment from \$743,726 to \$735,991 and the adjustment of income taxes and deferred taxes from operating activities going from (\$77,604) to \$479,132, statement of cash flows has not undergone any other change for the year ended August 31, 2011.

SELECTED ANNUAL INFORMATION

The following selected financial data is derived from our audited consolidated financial statements for the year ended August 31, 2012.

In \$ 000's except for share data	year ended August 31, 2012	year ended August 31, 2011	Year ended August 31, 2010
Revenue	21	24	1
Net loss	(1,387)	(2,447)	(3,326)
Basic and diluted net loss per share	(0.01)	(0.02)	(0.06)
Total assets	16,129	16,946	8,133

This selected annual information should be read in conjunction with the audited consolidated financial statements filed on www.sedar.com for the year ended August 31, 2012.

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 year ended August 31, 2012. The following selected financial information data is derived from the Company's audited consolidated financial statements for the year indicated.

FINANCIAL HIGHLIGHTS

	August 31	
	2012	2011
Revenues	\$ 20,484	\$ 23,644
General administrative expenses, salaries and short-term benefits	\$ 322,002	\$ 226,877
Registration, listing fees and shareholders' information	\$ 117,333	\$ 161,768
Professional and consultant fees	\$ 778,589	\$ 470,514
Share-based compensation	\$ 201,493	\$ 735,991
Amortization of fixed assets	\$ 11,200	\$ 1,769
Part XII.6 taxes	\$ 10,556	\$ 11,010
Net loss from discontinued operations	\$ -	\$ 23,750
Impairment of exploration and evaluation assets	\$ 342,222	\$ 360,322
Loss before income taxes	<u>\$ (1,762,911)</u>	<u>\$ (1,968,357)</u>
Deferred income and mining taxes	\$ 375,832	\$ (479,132)
Total comprehensive loss for the period	<u>\$ (1,387,079)</u>	<u>\$ (2,447,489)</u>
Cash & cash equivalents	\$ 712,024	\$ 2,224,229

Revenues

Revenues for the year ended August 31, 2012, amounted to \$20,484 (\$23,644 - 2011) and consisted of interest revenues. Given its status as a mining exploration company, Critical Elements does not generate any steady income, and must issue equity to conduit.

General Administrative Expenses and Salaries

General administrative expenses and salaries for the year ended August 31, 2012, consisted mainly of general office expenditures, traveling expenses, promotion activities, salaries and expenses incurred to maintain the Company's website. Administrative changes at the Company resulted in a \$45,000 decrease in salary expenses. Under the agreement with Blue Note Mining Inc., some of the administrative expenses for the Croinor property are recognized under general administrative expenses. A nil amount was recorded for the exercise ended August 31, 2012, compared to \$19,000 at August 31, 2011. The increase resulted from a higher level of promotional activity, and claim renewal expenses of \$192,000 compared to \$61,000 in 2011. In May 2011, the Company took possession of its new offices and thus began incurring additional expenses, including an increase in rent and office supplies.

Registration, Listing Fees and Shareholder Information

Registration, listing fees and shareholder information expenses for the year ended August 31, 2012, consisted mainly of expenditures of a legal and regulatory nature incurred to comply with the requirements of the securities commission. The change from to the previous year is mainly due to lower listing fees and registrar and shareholder information expenses. A decrease of \$ 44,000 was recorded.

Professional and Consultant Fees

Professional and consulting fees for the year ended August 31, 2012, consisted primarily of expenses of a legal and accounting nature, as well as audit, business development and management expenses. The \$308,000 increase from to the previous year was due in expenses related to investor relations and consulting fees.

Share-Based Compensation

Share-based compensation for the year period ended August 31, 2012, represents the value of the 1,550,000 options granted to directors, officers and consultants. A compensation charge of \$201,493 (\$735,991 in 2011) was therefore attributed during the period in connection with stock options grants, using the Black-Scholes pricing model.

Impairment of exploration and evaluation assets

During the year ended August 31, 2012, the Company decided to write down some of its Quebec properties in order to focus on other mining projects, and therefore recorded an impairment charge for its Weres, Seigneurie, Sophie, Reine, J6L1, Lac Sévigny-NE, Gatineau and Melasse properties. No exploration and evaluation work was carried out on these properties. Management's decision is in line with its intention not to carry out exploration and evaluation on these properties in the foreseeable future. A charge of \$342,222 was recognized in earnings.

SUMMARY OF QUARTERLY RESULTS

The following discussion and analysis are based on Critical Elements' results of operations for the three-month period ended August 31, 2012. The selected financial information below was taken from the audited consolidated financial statements for each of the three-month periods shown.

FINANCIAL HIGHLIGHTS

	August 31 (3 months)	
	2012	2011
Revenues	\$ 1,895	\$ 10,254
General administrative expenses, salaries and short-term benefits	\$ 39,239	\$ 86,926
Registration, listing fees and shareholders' information	\$ 12,947	\$ 62,947
Professional and consultant fees	\$ 206,248	\$ 93,923
Share-based compensation	\$ (39,230)	\$ 106,966
Amortization of fixed assets	\$ 3,042	\$ 1,555
Part XII.6 taxes	\$ 10,566	\$ 1,252
Net loss from discontinued operations	\$ -	\$ (14,747)
Impairment of exploration and evaluation assets	\$ 342,222	\$ 13,243
Loss before income taxes	\$ (573,139)	\$ (341,811)
Deferred income and mining taxes	\$ 717,936	\$ 405,496
Total comprehensive loss for the period	\$ 144,797	\$ 63,685
Cash & cash equivalents	\$ 712,024	\$ 2,224,229

Revenues

Revenues for the three-month period ended August 31, 2012, amounted to \$1,895 (\$10,254 - 2011) and consisted of interest revenues. Given its status as a mining exploration company, Critical Elements does not generate any steady income, and must issue equity to conduit.

General Administrative Expenses and Salaries

General administrative expenses and salaries for the three-month period ended August 31, 2012, consisted mainly of general office expenditures, traveling expenses, promotion activities, office expenses and the renewal of the Company's claims. The decrease was due to the lower costs related to promotional activities and claims.

Registration, Listing Fees and Shareholder Information

Registration, listing fees and shareholder information expenses for the three-month period ended August 31, 2012, consisted mainly of expenditures of a legal and regulatory nature incurred to comply with the requirements of the securities commission. The change from the prior period was mainly due to an increase in expenses related to registration, listing fees and shareholder communications, which resulted in a net decrease of \$50,000.

Professional and Consultant Fees

Professional and consulting fees for the three-month period ended August 31, 2012, consisted primarily of expenses of a legal and accounting nature, as well as audit, business development and management expenses. The change was due to a \$112,000 increase in investor relations expenses, business development expenses, consulting fees and professional fees. These increases were caused by a larger number of promotional activities.

Share-Based Compensation

Share-based payments for the three months ended August 31, 2012 and 2011, represented the adjustment to the fair values of options granted to directors, officers and consultants during the year.

Impairment of exploration and evaluation assets

During the year ended August 31, 2012, the Company decided to write down some of its Quebec properties in order to focus on other mining projects, and therefore recorded an impairment charge for its Weres, Seigneurie, Sophie, Reine, J6L1, Lac Sévigny-NE, Gatineau and Melasse properties. No

exploration and evaluation work was carried out on these properties. Management's decision is in line with its intention not to carry out exploration and evaluation on these properties in the foreseeable future. A charge of \$342,222 was recognized in earnings.

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

\$000s of \$ except for share data	August 31 2012	May 31 2012	Feb. 29 2012	Nov. 30 2011	Aug. 31 2011	May 31 2011	Feb. 28 2011	Nov. 30 2010
Revenues	2	4	9	5	11	7	3	3
Net profit (loss)	145	(754)	(431)	(347)	(64)	814	354	1,343
Basic and diluted net loss per share	\$ 0.00	\$ (0.01)	\$ (0.00)	\$ (0.00)	\$ (0.00)	\$ 0.01	\$ 0.00	\$ 0.02

LIQUIDITY AND CAPITAL RESOURCES

Cash and cash equivalents as at August 31, 2012, totalled \$712,024 compared to \$2,224,229 as at August 31, 2011. 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 2011	Common shares	\$1,624,200	Working Capital and exploration expenditures	

For the next year, the Company has budgeted \$940,000 for administrative expenses. As at the date hereof, the Company did not have the necessary cash to fulfill its commitments. The Company will have to find funds in order to fulfill its commitments. The Company will have to find additional funds and despite the fact it has been successful in the past, there is no guarantee for the future. Actually, there remains a risk that the Company is unable to find cash even if management is optimistic in finding the necessary cash for the implementation of its strategic plan. Advanced exploration of some of the mineral properties would require substantially more financial resources. During the year ended August 31, 2012, the Company was able to rely on its ability to raise financing through public or privately-negotiated equity offerings. 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 elect to advance the exploration and development of mineral properties through joint ventures. Management is currently considering opportunities for further financing.

CASH FLOWS

	August 31 (3 months)	
	2012	2011
Operating activities	\$ 43,533	\$ 78,592
Financing activities	\$ (862)	\$ -
Investing activities	\$ (477,429)	\$ (424,387)
	\$ (434,758)	\$ (345,795)
Cash & cash equivalents	\$ 1,146,782	\$ 1,878,586

During the year ended August 31, 2012, funds used for operating activities were spent primarily on improving operations and promotion of the Company.

During the year ended August 31, 2012, the main financing activities were as follows:

During the year period ended August 31, 2012, the Company's financing activities consisted of the exercise of warrants.

During the year period ended August 31, 2012, investing activities consisted primarily of exploration work on the Rose Tantalum-Lithium and several properties in British Columbia.

CONTRACTUAL OBLIGATIONS AND OFF-BALANCE-SHEET ARRANGEMENTS

Commitments with a Board Member

A) In March 2011, 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 public company X-Ore Resources Inc. ("X-Ore"), a subsidiary of Blue Note Mining Inc., whereby the interest of each partner was established at 50%. The joint venture was created to perform exploration and development work and, if appropriate, to put a mine into production on the Croinor 1 property.

In July 2010, the Company and Blue Note Mining Inc. entered into an agreement for the acquisition by X-ORE of all of Critical Elements' interest in the Croinor gold project and all of its interest in the Matchi-Manitou property, which represents a 71% interest.

In relation with this agreement and considering extensions, the Company received a total amount of \$205,000 in cash. The agreement originally provided that the Company would receive a total of \$2,350,000 in cash and 17,500,000 shares of Blue Note Mining Inc.

Since signature, the original agreement was extended various times, bringing the expected date of closing of the transaction to May 31, 2012. As the closing did not take place on that date, the benefits, costs, expenses, liabilities, obligations and risks are shared between the parties in proportion of their respective interest effective since June 1st, 2012.

C) In November 2009, the Company signed a joint venture agreement with the public company Brionor Resources Inc. (as successor of the rights and obligations of Normabec Mining Resources Ltd on the Matchi-Manitou property). The purpose of the joint venture is to perform exploration and development work and, if appropriate, bring in operation a mine on the Matchi-Manitou property. Critical Elements holds a 71% interest. Since the year ended August 31, 2011, no exploration and evaluation expense was incurred in relation with the joint venture agreement.

D) In December 2010, the Company signed an option agreement to acquire 100% interest in Kin, Trident, IRC, Munroe, Hiren, Claire and Lindmark properties located in British Columbia. Under this agreement, the Company paid \$125,000 in cash and issued 3,000,000 shares. To fulfill its obligation, the Company will have to issue 1,000,000 additional shares in January 2013.

Under the terms of the agreement, the properties remains subject to a 2% NSR royalty payable to the vendors, half of which (1%) can be purchased by Critical Elements in counterpart of \$1,000,000 and the other half (1%) can be purchased for an amount of \$5,000,000.

E) In June 2011, the Company signed a lease contract for its Montreal office, expiring in June 2014.

Minimum payments are totalling \$99,310 and include the following payments over the next 2 years; 2013: \$54,169 and 2014: \$45,141.

ROYALTIES ON THE MINING PROPERTIES

PROPERTY	ROYALTY		DESCRIPTION
	Name	Percentage	
Croinor 1	Successors of Fred D. Corcoran and Denis R. Agar	7.5% each	of net profit from commercial production from 92 claims of which \$7,500 is payable to each successor in September of each year as an advanced payment on royalties
	Canadian Spooner Resources Inc.	5%	of net income from production on 97 claims that become payable only after all expenditures costs have been recouped
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, Claire et 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 et 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 year, the Company has incurred professional and consultants fees amounting to \$41,626 (\$48,427 in 2011) and general administrative expenses for \$10,328 (\$2,700 in 2011) with its chief financial officer. In relation with these transactions, \$1,579 was payable as at August 31, 2012

During the year, the Company incurred \$330,847 in exploration and evaluation assets (\$2,405,170 in 2011), general administrative expenses for \$343,754 (\$70,864 in 2011) and claims (included in general administrative expenses in the net loss) for \$55,497 (\$33,264 in 2011) with Consul-Teck Exploration inc., a company controlled by the President and Chief Executive Officer of the Company. In relation with these transactions, \$233,645 was payable as at August 31, 2012.

The 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.

During the year ended August 31, 2011, the company acquired the remaining 35% interest in the Rose tantalum-lithium property. The president of the company received in counterpart 4,000,000 common shares of the company and \$75,000 in cash. The president of the company also owns 37.5% royalty of the 2% NSR royalty on the said property. Half of the royalty can be redeemed by the company for the sum of \$1,000,000.

These transactions are not concluded in the normal course of the Company's activities and therefore are measured at the exchange amount.

Transactions with Board Members

During the year, the Company incurred \$104,000 in professional and consultants fees (Nil in 2011) with Cansource International Enterprise, a company controlled by a director of the Company. In relation with these transactions, no amount was payable as at August 31, 2012.

During the year, the Company incurred \$56,000 in professional and consultants fees (Nil in 2011) with Paradox Public Relations, a company controlled by a director of the Company. In relation with these transactions, no amount was payable as at August 31, 2012.

During the year, the Company incurred \$23,850 in exploration and evaluation assets (\$69,940 in 2011), with Apsidal Consulting Corp., a company controlled by a director of the Company. In relation with these transactions, \$25,416 was payable as at August 31, 2012 (\$69,940 in 2011).

The 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.

SIGNIFICANT ACCOUNTING POLICIES

Statement of Compliance

These consolidated financial statements of Critical Elements were prepared by management in accordance with IFRS, as issued by the IASB. Critical Elements' results and financial position are presented under IFRS and the current financial statements were prepared in accordance with IFRS 1, *First-time Adoption of IFRS*. Those accounting policies are based on the IFRS standards and International Financial Reporting Interpretations Committee ("IFRIC") interpretations.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements and in preparing the opening IFRS statement of financial position as at September 1st, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

Financial Statements and Functional Currency

The financial statements were prepared in accordance with IFRS. The reporting currency and the currency of all operations of the Company is the Canadian dollar, since it represents the currency of the primary economic environment in which the Company operates.

Consolidation Principle

The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, "Ruth Silver and Metal Corp. S.A. DE C.V.", liquidated on June 21, 2012.

Currency Conversion

The financial statements of the Company are reported in Canadian currency, 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. Exchange differences resulting from transactions are recorded in the income statement for the period. Exchange differences relating to operating activities are recorded in operating income for the period; exchange differences related to financing transactions are recognized in loss or in equity.

Joint Venture

The Company's interest in a joint venture is accounted for by the proportional consolidation method.

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.

Tax Credit Related to Resources and Mining Taxes Credit

The Company is entitled to a tax credit related to resources of 35% on eligible exploration and evaluation expenses incurred in the province of Quebec. Since the Rose Tantalum-Lithium property is located in Far North, this credit represents 38.75% of eligible expenses made on the said property. In addition, the Company is entitled to a mining tax credit equal to 15.67% of 50% of eligible exploration and evaluation expenditures, reduced of tax credit related to resources.

These amounts are based on estimates made by management and provided that the Company is reasonably certain that they will be received. At that time, tax credit related to resources and mining taxes credit are recorded as a reduction of exploration and evaluation expenses.

Cash Reserved for Exploration and Evaluation

Cash reserved for exploration and evaluation represent proceeds of public financing not yet incurred. The Company must use these amounts to explore mining properties in accordance with restrictions imposed by those financing. As at August 31, 2012, the Company had spent all amounts reserved for exploration and evaluation while \$491,506 had to be spent as at August 31, 2011.

Exploration and Evaluation Assets

Expenditures incurred before the entity has obtained the legal rights to explore a specific area are recognized as expenses. Expenditures related to the development of mineral resources are not recognized as exploration and evaluation assets. Expenditures related to the development are accounted as an asset only when the technical feasibility and commercial viability of a specific area are demonstrated and when recognition criteria of IAS 16 *Property, Plant and Equipment* or IAS 38 *Intangible Assets* are fulfilled.

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 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:

- they 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.

Costs related to the acquisition of mining properties and to exploration and evaluation expenditures are capitalized by property until the technical feasibility and commercial viability of extracting a mineral resource are demonstrable. When the technical feasibility and commercial viability of extracting a mineral resource are demonstrated, exploration and evaluation assets are reclassified as mining assets under development and amortized according to the unit of production method. Exploration and

evaluation assets are assessed for impairment before reclassification, and any impairment loss is recognized.

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 for sale 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 present-time or future value.

Impairment of Long-lived Assets

Long-lived 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 for sale 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.

Property, plant and equipment

Property, plant and equipment are accounted for at historical cost less any accumulated impairment losses. Historical 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 property, plant and equipment is calculated using declining method and at the following rates:

Computer equipment	40%
Office furniture	20%

Gains or losses on disposal of property, plant and equipment are determined by comparing the net proceed with the net carrying amount of the asset and are included in the statement of net loss and comprehensive loss.

Financial Instruments

Financial assets are initially recognized at fair value and their subsequent measurement is dependent on their classification in the following categories: held-to-maturity investments, available-for-sale, loans and receivables and at fair value through profit or loss ("FVTPL") and other liabilities. Their classification depends on the purpose, for which the financial instruments were acquired or issued, their characteristics and the Company's designation of such instruments. Transaction date accounting is used.

Held-to-maturity investments

Held-to-maturity investments are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the intention and ability to hold to maturity. After initial recognition, held-to-maturity investments are measured at amortized cost using the effective interest method, less impairment loss. The Company has no held-to-maturity investment.

Available-for-sale

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale, or that are not classified as loans and receivables, held-to-maturity or at FVTPL. Available-for-

sale financial assets are carried at fair value with unrealized gains and losses included in accumulated other comprehensive loss until realized; the cumulative gain or loss is then transferred to profit or loss statement. The Company has no available-for-sale assets.

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 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 asset at fair value through profit or loss ("FVTPL")

Financial assets at FVTPL include financial assets held by the Company for short-term profit, derivatives not in a qualifying hedging relationship and assets voluntarily classified in this category, subject to meeting specified criteria. These assets are measured at fair value, with any resulting gain or loss recognized in the profit or loss statement. The Company has no financial asset classified as FVTPL.

Other liabilities

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

Transaction costs

Transaction costs related to financial asset at FVTPL are recognized as expenses as incurred. Transaction costs related to available-for-sale financial assets, held-to maturity investment and loans and receivables are added to the carrying value of the asset and transaction costs related to other liabilities are netted against the carrying value of liability. They are then recognized over the expected life of the instrument using the effective interest method.

Effective interest method

The effective interest method is a method of calculating the amortized cost of a financial asset/liability and of allocating interest income/expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash flows (including transaction costs or fees, premiums or discounts earned or incurred for financial instruments that form an integral part of the effective interest rate) through the expected life of the financial asset/liability, or, if appropriate, a shorter period.

Provisions

A provision is a liability for which the maturity or the amount is uncertain. A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. As at August 31, 2012, and as at August 31, 2011, there was no provision accounted for in the statement of financial position.

Share-based Compensation

The Company accounts for share-based compensation over the vesting period of the rights to stock 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.

Equity-settled Share-based Payment Transactions

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

IFRS do not specifically address the accounting for flow-through shares or the related tax consequences arising from such transactions. The Company has adopted the view expressed by the Mining Industry Task Force on IFRS created by the Canadian Institute of Professional Chartered Accountants and the Prospectors and Developers Association of Canada.

The Company considers that the issue of flow-through shares is in substance an issue of common shares and the sale of tax deductions. The sale of tax deductions is measured using the residual method. At the time the flow-through shares are issued, the sale of tax deductions is deferred and presented as other liability in the statement of financial position. When eligible expenditures are incurred (as long as there is the intention to renounce them), the sale of tax deductions is recognized in the income statement as a reduction of deferred tax expense and a deferred tax liability is recognized for the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures capitalized as an asset in the statement of financial position and its tax base. Deferred tax liabilities resulting of the renouncement of expenditures related to flow-through shares can be reduced by the recognition of previously unrecognized deferred tax assets.

Fair Value of the Warrants

Proceeds from placements are allocated between shares and warrants issued using the relative fair value method. The Company uses the Black-Scholes pricing model to determine the fair value of warrants issued.

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 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.

Revenue Recognition

Investment transactions are accounted for using the accrual basis and interest income is accrued based on the number of days the investment is held during the year.

Other revenues are recognized when there is convincing evidence of the existence of an agreement, as the price is fixed or determinable and collection is reasonably assured.

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 before the sale 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).

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 and Deferred 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 of the reporting year and which, expected to apply to taxable income in the years during which those temporary differences are expected to be recovered or settled. 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. The Company establishes a valuation allowance against deferred income tax assets if, based on available information, it is probable that some or all of the deferred tax assets will not be realized.

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

Determining if there are any facts and circumstances indicating impairment loss or reversal of impairment losses is a subjective process involving judgment and a number of estimates and interpretations. Determining whether to test exploration and evaluation assets for impairment requires management's judgment, among others, regarding the following: the period for which the entity has the right to explore in the specific area; substantive expenditure on further exploration and evaluation in a specific area is not budgeted; exploration and evaluation have not led to the discovery of economically

recoverable reserves and the entity has decided to discontinue such activities; or the Company's capacity of obtaining financing required in order to continue exploration and evaluation. When an indication of impairment loss or a reversal of an impairment loss exists for such asset, the recoverable amount of the individual asset must be estimated. This requires management to make several assumptions as to future events or circumstances. These assumptions and estimates are subject to change when new information becomes available. Actual results with respect to impairment losses or reversals of impairment losses could differ and significant adjustments to the Company assets and earnings may occur.

Provisions and contingent liabilities

The judgment is used to determine whether a past event has created a liability that should be recorded in the financial statements or whether it should be presented as a contingent liability. Quantify these liabilities involves judgments and estimates. These judgments are based on several factors, such as the nature of the claim or dispute, legal procedures and the potential amount to be paid, legal advice obtained, previous experience and the likelihood of the realization of a loss. Many of these factors are sources of uncertainty in estimates. As at August 31, 2012 and as at August 31, 2011, the contingent liabilities of the Company concern environmental impact and flow-through shares.

Share-based payment

The fair value of share purchase options granted is determined using Black-Scholes pricing model that takes into account the exercise price and expected life of the option, the current price of the underlying stock, its expected volatility, the expected dividends on the stock, and the current risk-free interest rate for the expected life of the option. The inputs used to determine the fair value are composed of significant judgements and estimates aim to approximate the expectations that likely would be reflected in a current market or negotiated exchange price for the option. Significant judgments made by management of the Company concern the establishment of the volatility percentage and the fair value method used.

Income taxes and deferred taxes

When recording and estimating deferred taxes, management must use judgment in relation with the interpretation of the laws substantively enacted, the income taxes rate used to establish the amounts, the economic and business conditions as well as corporate structure and taxation referred to determine what might be the impacts on the taxable income in future periods. Management made significant judgments in regard to the extent that it is more probable that sufficient taxable profit will be available to allow the use of benefit of all or part of deferred tax assets.

CERTIFICATION OF ANNUAL FILINGS

The President and Chief Executive Officer and the Chief Financial Officer have signed the Basic Certifications of Annual Filings as required by National Instrument 52-109 for the venture issuer, thus confirming, the review, the absence of misrepresentations and the fair presentation of the annual filings.

- The President and Chief Executive Officer and the Chief Financial Officer confirm to have reviewed the annual financial statements and the annual MD&A (together, the "annual filings") of the Company for the exercise ended August 31, 2012.
- Based on their knowledge, having exercised reasonable diligence, the President and Chief Executive Officer and the Chief Financial Officer confirm that the annual 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, for the period covered by the annual filings.

- Based on their knowledge, having exercised reasonable diligence, the President and Chief Executive Officer and the Chief Financial Officer confirm that the annual financial statements together with the other financial information included in the annual filings fairly present in all material respects the financial condition, results of operations and cash flows of the issuer, as of the date of and for the period presented in the annual filings.

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

	August 31	
	2012	2011
Balance, beginning of period	<u>\$ 12,921,295</u>	<u>\$ 5,073,610</u>
Add:		
Acquisition of exploration and evaluation assets	140,000	5,578,412
Drilling	70,866	2,033,604
Pre-feasibility and impact studies	823,915	289,953
Feasibility studies	596,356	-
Mineral resource estimate	-	59,587
Environment	-	35,227
Airbone survey	41,400	295,600
Metallurgical test	24,650	93,477
Survey	-	
Supervision	69,679	136,531
Geology and geophysics	313,118	598,534
Analysis	253,822	-
General exploration expenses	25,663	52,601
	<u>2,359,469</u>	<u>9,173,526</u>
Balance, before deduction	<u>15,280,764</u>	<u>14,247,136</u>
Tax credit and mining duties	407,703	799,042
Cancellation of an amount receivable from an exploration partner	-	21,477
Mining taxes credit adjustment	(59,668)	
Disposal	40,000	145,000
Impairment	342,222	360,322
	<u>730,257</u>	<u>1,325,841</u>
Balance, end of period	<u>\$ 14,550,507</u>	<u>\$ 12,921,295</u>

MATERIAL COMPONENTS

	2012	August 31 2011	2010
Statements of Comprehensive Income			
Professional and consultant fees	\$ 778,589	\$ 470,514	\$ 819,239
Stock-based compensation	\$ 201,493	\$ 735,991	\$ 1,072,170
	2012	August 31 2011	2010
Statements of Financial Position			
Cash reserved for exploration and evaluation	\$ -	\$ 491,506	\$ -
Exploration and evaluation assets	\$ 14,550,507	\$ 12,921,295	\$ 5,073,610

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

DISCLOSURE OF OUTSTANDING SHARE DATA (as at December 21, 2012)

Common shares outstanding:	110,761,372	
Options outstanding:	6,650,000	
Average exercise price of:	\$ 0.24	
	Number	Exercise
Expiry date	of shares	price
		\$
April 2013	450,000	0.30
September 2013	1,000,000	0.15
April 2014	200,000	0.15
October 2014	300,000	0.15
March 2015	400,000	0.40
December 2015	100,000	0.32
December 2015	400,000	0.335
March 2016	2,250,000	0.30
January 2017	1,550,000	0.15
	6,650,000	

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

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

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).