MATICA GRAPHITE

**MANAGEMENT'S DISCUSSION AND ANALYSIS**

**FOR THE YEARS ENDED DECEMBER 31, 2013**

## Date of Report: May 30, 2013

The following Management discussion and analysis ("MD&A") provides analysis of Matica Graphite Inc. (formerly "Cadman Resources Inc."), ("the Company")'s audited financial results for the year ended December 31, 2013 with comparisons to 2012. This MD&A should be read in conjunction with the audited financial statements and notes thereto for the year ended December 31, 2013. Additional information relevant to the Corporation is available for review on SEDAR at www.sedar.com.

All financial results presented in this MD&A are expressed in Canadian dollars unless otherwise indicated.

## Forward-Looking Information

Certain information included in this discussion may constitute forward-looking statements.

Forward-looking statements generally can be identified by the use of forward-looking terminology such as "may," "will," "expect," "intend," "estimate," "anticipate," "believe," or "continue" or the negative thereof or variations thereon or similar terminology. Forward-looking statements are necessarily based upon a number of estimates and assumptions that, while considered reasonable by management are inherently subject to significant business, economic and competitive uncertainties and contingencies. There can be no assurance that such statements will prove to be accurate and actual results and future events could differ materially from those anticipated in such statements. These factors include the inherent risks involved in the mining, exploration and development of mineral properties, the uncertainties involved in interpreting drilling results and other geological data, fluctuating metal prices, the possibility of project cost overruns or unanticipated operating costs and expenses, uncertainties related to the necessity of financing, the availability of and costs of financing needed in the future and other factors described in the Company's Annual Information Form under the heading "Risk Factors". The Company disclaims any obligation or intention to update or revise any forward-looking statement, whether as a result of new information, future events, or otherwise. The reader is cautioned not to place undue reliance on forward-looking statements.

## DESCRIPTION OF BUSINESS

The Company was incorporated pursuant to the Business Corporation Act (British Columbia) on November 13, 2007. The Company was a "Capital Pool Company"("CPC"), as defined in the policies of the TSX Venture Exchange (the “Exchange” or “TSX-V”). On December 23, 2010, the Company transferred the listing of the Company’s share to the NEX Board. On July 6, 2012, the Company delisted from the NEX Board and began trading on the Canadian National Stock Exchange (“CNSX”) under the symbol “CUZ”.

On April 17, 2014, the Company changed its name from Matica Graphite Inc. (formerly “Cadman Resources Inc.”) to Matica Graphite Inc.. Effective April 21, 2014, the Company will begin trading under the new symbol GRF.

The Company’s main business involves the acquisition, exploration and development of mineral properties.

## HIGLIGHTS

- On March 26, 2013, the Company renegotiated with Shenba Resources Holdings Limited to acquire a 75% equity interest in Tung Wing Trading Co. Ltd., a Tanzania registered company with interest in 3 mineral exploration properties in Tanzania. Tung Wing Trading Co. Ltd. has a letter of intent (“LOI”) to acquire certain mineral interest in Tanzania. On signing of this LOI, the Company effectively terminated the previous LOI with Shenba to acquire 65 per cent of the Mbozi Copper project.

- On June 10, 2013, the Company concluded the negotiations with Shenba Resources Holdings Limited (“Shenba”) and has entered into an agreement with Shenba.

- On July 26, 2013, the Company signed an option agreement with JP & Associates Inc. to acquire a 100 percent interest in the rare-earth project located north of Ottawa/Gatineau near the town of Maniwaki in Quebec. The Maniwaki West property comprises 24 permits totalling 14.23 $km^2$. The property itself is adjacent to the recent rare-earth-element discoveries by Cavan Ventures Inc.

- September 20, 2013, the Company signed an agreement for a new graphite project in Buckingham township in the Ottawa valley, western Quebec to acquire a 100 percent interest in the graphite project located east of Ottawa/Gatineau. The Buckingham North property (the “Property”) is comprised of 18 permits totaling 10.89 $km^2$. To exercise the option and earn 100 percent interest in the Property, the Company is required to deliver 3,000,000 shares of Company common stock upon signing of the option agreement and to make a cash payment of $5,000.

- On November 12, 2013, the Company signed another option agreement to acquire additional property adjacent to its Buckingham North graphite project in the Ottawa valley, western Quebec. This additional new property is comprised of 4 permits totaling 2,4 $km^2$. To exercise the option and earn 100 percent interest in the Property the Company is required to deliver 1,000,000 shares of Company common stock upon signing of the option agreement and to make a cash payment of $5,000.

- On January 4, 2014, the Company entered into a Letter of Intent (“LOI”) to acquire 100% of a new graphite project in North West Nevada known as the Grumpy Lizard property which is comprised of 56 claims. The LOI expired on April 30, 2014. The Company paid $5,000 USD in March 2014 related to this LOI.

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## OUTLOOK

Throughout 2013 and thus far in 2014 the junior resource market has experienced a downturn. Overall share prices have declined and traditional sources of financings have weakened. The immediate future of the entire sector is somewhat diminished as demand for raw materials and prices fluctuate downward and the entire sector consolidates. In response to current events, Matica has been seeking alternative sources of financing in order to ensure the continuation of the Company. As a non-revenue generating entity, Matica is dependant of external sources of funding to finance the Company's exploration activities and as such has placed a priority on securing foreign sources of funds.

## MINERAL PROPERTIES

Gaspe Copper

On November 9, 2012, the Company signed an option agreement with Bertrand Brassard to acquire 100 percent interest in the copper project located in the Gaspe Peninsula in the Province of Quebec. The Gaspe copper property is comprised of 56 permits totalling 3,192 Ha. Historical results showed trench samples up to 5.1% copper. To exercise the option and earn 100 percent interest in the property the company is required to deliver 100,000 shares of Company common stock upon signing of the option agreement and to deliver a further 1,000,000 shares of Company common stock on or prior to December 31, 2013. The Company has made a cash payment of $5,000 at the signing of the LOI and must make a further cash payment of $25,000 on or prior to December 31, 2013. The Company also has a work commitment of $300,000, $100,000 of which must be incurred by June 1, 2013 and the remaining $200,000 must be incurred by December 31, 2013.

The property is subject to a 2% net smelter return ("NSR"). The Company has the right, at any time and at its sole discretion, to purchase one of the two percentage points of the NRR on the property by paying to the optionor the sum of $1,000,000.

During the year ended December 31, 2013, none of the cash payment of $25,000, share issuance of 1,000,000 common shares or $300,000 exploration expenditures was incurred. Management has determined not to pursue any further exploration in the property. Consequently, the deferred acquisition and exploration costs incurred in this property in the amount of $29,828 were fully written off in 2013.

Golden Star Block

On March 6, 2012 and amended on May 28, 2012, the Company entered into an option agreement to acquire a 55% undivided interest in 2 blocks of mining claims, leases and patents, known as the Golden Star Block and the Baseline/Nugget Block, that are located in Northwestern Ontario. The Company can acquire the interest by paying $275,000 in cash, issuing 960,000 common shares of the Company and incurring $600,000 exploration expenditures on the properties within two years as follows:

| | Cash Payments | Share Issuance | Exploration Expenditures |
|---|---|---|---|
| | $ | | $ |
| 30 days after July 6, 2012 (paid) | 25,000 | – | – |
| 5 days after July 6, 2012 | – | 960,000 | – |
| 3 months after July 6, 2012 (paid $5,000) | 100,000 | – | – |
| 12 months after July 6, 2012 | 150,000 | – | 250,000 |
| 24 months after July 6, 2012 | – | – | 350,000 |
| | 275,000 | 960,000 | 600,000 |

The property is subject to a 2% NSR. The Company may purchase one half of each of the NSR at any time for $500,000.

The Company made a deposit of $25,000 in 2011 and made a $5,000 payment in 2012 on the property. The Company did not issue the 960,000 common shares as required in the option agreement. Management has determined not to pursue any further exploration in the property. Consequently, the $30,000 deferred acquisition cost balance was charged to net loss in 2012.

Mbozi Copper and Tung Wing options

On July 10, 2012 the Company entered into a letter of intent with Shenba Resources Holdings Limited ("Shenba") Limited to acquire a 65% interest in the Mbozi Copper project located in the United Republic of Tanzania. This Option Agreement was terminated on March 12, 2013. As a result, the $55,000 deposit was recorded as impairment expense.

On June 10, 2013, the Company entered into an option agreement with Shenba to acquire a 75% of all the outstanding shares of Tung Wing Trading Co. Limited ("Tung Wing"), a Tanzania registered company. As consideration for the option, the Company will pay to Shenba the sum of US$100,000 cash and issue a total of 10,000,000 common shares of the Company within 6 months of completion of the final purchase agreement. The Company is also required to pay Tung Wing US$120,000 cash within 6 months of completion. The Company will then have the obligation to finance any future property acquisitions, pay operating costs required by the Tanzanian Ministry of Commerce and pay exploration costs.

Tung Wing holds two mineral exploration properties in the Republic of Tanzania. There are two adjacent properties in the southern region of Ruvuma totalling 61.15 $km^2$ .

On June 12, 2013, the Company issued Shenba 10,000,000 common shares at a fair value of $300,000. As a result, Shenba owns 38.05% of the issued and outstanding common shares on an undiluted basis and has become a control person (as defined by applicable securities law) of the Company. The $55,000 deposit paid to Shenba in 2012 for the Mbozi Copper project was used to apply to the US$100,000 cash to Shenba. As a result, a reversal of impairment of deposit of $55,000 was recorded in 2013.

For the year ended December 31, 2013, the Company paid $76,698 to Tung Wing as partial payments of the US$120,000 option payment. However, since these payments were made prior to the option agreement and therefore, were considered as pre-acquisition expenditures. These payments were recorded as general exploration expense in the current year.

A director of Shenba who owns 15% equity interest in Shenba is related to an officer of the Company who was appointed Chief Financial Officer of the Company on March 7, 2013.

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Maniwaki West property

On July 26, 2013, the Company signed an option agreement with JP & Associates to acquire 100 percent interest in the rare earth project (the "REE project") located north of Ottawa/Gatineau near the town of Maniwaki in the Province of Quebec. The Maniwaki West property is comprised of 24 permits totalling 14.23 $km^2$. To exercise the option and earn 100 percent interest in the Maniwaki West property, the Company is required to issue 2,000,000 shares of Company common stock (issued) upon signing of the option agreement and to make a cash payment of $10,000 (not paid).

On August 13, 2013, the Company issued 2,000,000 common shares at a fair value of $80,000.

Buckingham North property

On September 20, 2013, the Company signed an option agreement with JP & Associates Inc. and Alexander Johnston to acquire 100 percent interest in the graphite project located east of Ottawa/Gatineau. The Buckingham North property (the "Property") is comprised of 18 permits totalling 10.89 $km^2$. To exercise the option and earn 100 percent interest in the property, the Company is required to issue 3,000,000 shares of Company common stock (issued) upon signing of the option agreement and pay $5,000 cash on or before November 15, 2013 (not paid).

On November 5, 2013, the Company issued 3,000,000 common shares at a fair value of $135,000.

On November 12, 2013, the Company signed another option agreement to acquire additional property adjacent to its Buckingham North graphite project in the Ottawa valley, western Quebec. This additional new property is comprised of 4 permits totaling 2.4 $km^2$. To exercise the option and earn 100 percent interest in the Property, the Company is required to issue 1,000,000 shares of Company common stock upon signing of the option agreement and to make cash payment of $5,000 on or before December 31, 2013 (not paid). The 1,000,000 shares were issued on March 28, 2014.

## OVERALL PERFORMANCE

As at December 31, 2013, the Company had cash and other current assets totalling $7,636 (December 31, 2012; $157,165) and working capital deficit of $392,287 (December 31, 2012 working capital of $19,888). For the year ended December 31, 2013, the Company incurred $566,813 (December 31, 2012; $349,372) in general and administrative expenses.

### Selected Annual Information

The following table shows the financial results derived from the Company's financial statements for the years December 31, 2013 and December 31, 2012:

| | | December 31, 2013 | | December 31, 2012 | | December 31, 2011 |
|---|---|---|---|---|---|---|
| Total Revenues | $ | - | $ | - | $ | - |
| Net Profit (Loss) | $ | (968,615) | $ | (433,465) | $ | (355,237) |
| Basic and diluted loss per share | $ | (0.04) | $ | (0.04) | $ | (0.03) |
| Total Assets | $ | 226,827 | $ | 186,993 | $ | 277,273 |
| Total Long Term Liabilities | $ | 35,868 | $ | 20,033 | $ | - |
| Cash dividends declared per share | $ | - | $ | - | $ | - |

In the current year, the Company incurred a net loss of $968,615 compared to a net loss of $433,465 for the year ended December 31, 2012. The net loss was due in large part to the write off of the Gaspe Copper and

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Tung Wing properties and an indemnification provision for flow-through shares and related penalty and interest charges.

The Company had a loss per share of $0.04 in 2013 compared to $0.04 in 2012. Total assets at the end of 2013 amounted to $226,827 as compared to total assets of $186,993 in 2012. The increase of total assets was mainly due to the acquisition of new properties and payments of existing properties.

## FINANCIAL RESULTS

### Summary of Quarterly Results

The following table sets out selected unaudited quarterly financial information of the Company.

| Quarterly Information | Revenue | Net Profit (Loss) | Basic and diluted loss per common share |
|---|---|---|---|
| December 31, 2013 | $ - | $ (659,189) | $ (0.02) |
| September 30, 2013 | $ - | $ (61,046) | $ (0.00) |
| June 30, 2013 | $ - | $ (83,213) | $ (0.01) |
| March 31, 2013 | $ - | $ (165,167) | $ (0.01) |
| December 31, 2012 | $ - | $ (218,988) | $ (0.02) |
| September 30, 2012 | $ - | $ (86,734) | $ (0.01) |
| June 30, 2012 | $ - | $ (102,129) | $ (0.01) |
| March 31, 2012 | $ - | $ (25,614) | $ (0.00) |

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## Comparison of operating results

*Fourth quarter information*

| | Three Months Ended December 31 | |
|---|---|---|
| | **2013** | 2012 |
| | **$** | $ |
| **GENERAL AND ADMINISTRATIVE EXPENSES** | | |
| Consulting | **7,508** | 17,100 |
| General exploration expense | **76,698** | 6,032 |
| Management and director's fees | **40,500** | 55,500 |
| Marketing | **63,950** | 2,700 |
| Office and miscellaneous | **4,754** | 8,394 |
| Professional fees | **11,396** | 31,231 |
| Rent | **7,875** | 6,730 |
| Share-based compensation | **42,254** | - |
| Transfer agent and filing fees | **3,240** | 4,141 |
| Travel and promotion | **(788)** | 2,169 |
| | **257,387** | 133,997 |
| **OTHER INCOME (EXPENSES)** | | |
| Flow-through share premium recovery | **365** | - |
| Impairment of exploration and evaluation assets | **(384,828)** | (30,000) |
| Indemnification provision for flow-through shares | **(56,904)** | - |
| Interest and other income | **-** | 907 |
| Penalties and interest on flow-through shares | **(15,435)** | - |
| Reversal (Impairment) of deposit | **55,000** | (55,000) |
| **NET LOSS AND COMPREHENSIVE LOSS** | **(659,189)** | (218,090) |

For the three months ended December 31, 2013, the Company’s general and administrative expenses were increased by $123,390 compared to the same period last year, mainly due to the following:

- the Company decreased consulting fees by $9,592 in comparison with the same period last year, and decreased management and director fees by $15,000 compared to the same period last year.
- general exploration increased $70,666 in comparison to the same period last year due to the additional expenditures relating to the pre-acquisition payment to Tung Wing as part of the option purchase agreement entered into with Shimba Resources Holdings Ltd. and Ting Wing Trading Company Ltd..
- management and director’s fees is $15,000 lower due to the elimination of one directors’ fees in the last quarter.
- marketing fees increased by $61,250 due to outsourcing of additional investor relations to assist in promoting the Company in general and the development of a new website.
- the administration fees are $3,640 lower due to the reduction of office expenses.
- professional fees is $19,835 lower, mainly due to the completion of a qualified transaction in 2012.

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- the rent is $1,145 higher than last year due to changes in the rental agreement.

- there is an increase of $42,254 in share based compensation due to 1,425,000 new options being granted on March 6, 2013 to various directors, officers and consultants. The transfer agent fee is comparable to the same period last year. The total fair value of these options was $64,908, of which $9,110 was recorded in marketing expense.

- travel and promotion expenses were negative due to a year end adjustment in an expense report.

- during the year end, the Company decided to write off the Gaspe Copper and Tung Wing properties. As a result, there is $384,828 in impairment expenses.

- since the Company won't be able to meet the requirement of the flow through share renouncement, the Company is accruing the penalty payable for indemnification provision for flow-through shares for the amount of $56,904 and to record $15,435 as tax, penalty and interest expense on factual flow-through shares renounced but not yet spent.

***Annual information***

| | **Twelve Months Ended December 31** | |
|---|---|---|
| | **2013** | 2012 |
| | **$** | $ |
| **GENERAL AND ADMINISTRATIVE EXPENSES** | | |
| Consulting | **38,473** | 34,300 |
| General exploration expense | **76,698** | 41,132 |
| Management and director's fees | **187,000** | 55,500 |
| Marketing | **68,044** | 12,615 |
| Office and miscellaneous | **12,716** | 18,933 |
| Professional fees | **49,975** | 118,153 |
| Rent | **29,705** | 26,843 |
| Share-based compensation | **55,798** | - |
| Transfer agent and filing fees | **14,843** | 31,226 |
| Travel and promotion | **33,561** | 10,670 |
| | **566,813** | 349,372 |
| **OTHER INCOME (EXPENSES)** | | |
| Flow-through share premium recovery | **365** | - |
| Impairment of exploration and evaluation assets | **(384,828)** | (30,000) |
| Indemnification provision for flow-through shares | **(56,904)** | - |
| Interest and other income | **-** | 907 |
| Penalties and interest on flow-through shares | **(15,435)** | - |
| Reversal (Impairment) of deposit | **55,000** | (55,000) |
| **NET LOSS AND COMPREHENSIVE LOSS** | **(968,615)** | (433,465) |

For the twelve months ended December 31, 2013, the Company's general and administrative expenses were increased by $217,441 compared to the same period last year, mainly due to the following:

- the Company's consulting fees is $4,173 higher, management fee is $131,500 compared to the same period last year due to management and directors' compensation resolutions and new consulting agreements signed in 2012

- general exploration increased $35,566 comparing the same period last year due to the additional expenditures on the Tung Wing properties

- marketing expenses increased $55,429 due to outsourcing additional investor relationship firms to help promote the Company in general and development of a new website

- professional fees is $68,178 lower, mainly due to completion of a qualified transaction in 2012.

- the rent is $2,862 higher than the same period last year due to a new rental agreement.

- there is an increase of $55,798 in share based compensation due to 1,425,000 new options being granted on March 6, 2013 to various directors, officers and consultants. The total fair value of these options was $64,908, of which $9,110 was recorded in marketing expense.

- the transfer agent fee is $16,383 lower, due to delisting on the NEX Board and listing on the CSE and completion of a qualified transaction in 2012.

- travel and promotion expenses were higher by $22,891 compared to the same period last year due to an increase in the number of acquisition or negotiation of various properties.

### Liquidity and Capital Resources

As of December 31, 2013, the Company had cash of $157 compared to $142,874 at December 31, 2012. Working capital was $(392,287) compared to $19,888 at December 31, 2012.

In 2013, the Company received $50,700 due to the exercise of 724,285 warrants at $0.07. The Company has gross proceeds of $81,300 from non brokered private placements and $43,200 from non brokered flow through private placements. The Company received $24,000 subscription from non brokerage flow through private placements announced in July which is paid in January 2014. The Company issued 1,326,000 shares at fair value of $66,300 to settle amounts owing to related parties and consultants, included in the $81,300 from the non brokered private placements.

In order for the Company to earn its interest in mineral properties under the option, the Company must meet certain exploration spending thresholds.

In management's view, given the nature of the Company's operations, which consists of exploration, mining and evaluation of mining properties, the most relevant financial information relates primarily to current liquidity, solvency and planned property expenditures. The Company's financial success will be dependent upon the extent to which it can discover mineralization and the economic viability of developing its properties. Such development may take years to complete and the amount of resulting income, if any, is difficult to determine.

## LATEST OUTSTANDING SHARE DATA

The following is the latest share data as of May 30, 2014.

Common shares – 33,448,118

Stock Options – 1,050,000

Warrants – 5,819,314

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## OFF BALANCE SHEET TRANSACTIONS

The Corporation has not entered into any off balance sheet agreements.

## RELATED PARTY TRANSACTIONS

The following is a summary of transactions with directors and officers, and companies controlled by directors of the Company:

| | December 31,2013 | December 31, 2012 |
|---|---|---|
| | $ | $ |
| Director fees, paid to a Company with a common director | 24,000 | 6,000 |
| Management fees, paid to officers and directors | 163,000 | 49,500 |
| Consulting fees, paid to a Company with a common director | - | 2,100 |
| Consulting fees, paid to an officer | 4,500 | 3,000 |
| Share-based compensation to officers and directors | 55,798 | - |
| Total key management compensation | 247,298 | 57,600 |

Due to related parties included payables to directors in the amount of $25,205 (2012 - $6,720) and payables to officers in the amount of $146,185 (2012 - $26,973). These amounts are unsecured and non-interest bearing.

On December 10, 2013, the Company issued 1,000,000 units at $0.50 per share to various officers for settlement of $50,000 owed to them.

### Non-Brokered Private Placement

On August 9, 2012, the Company closed a non-brokered private placement of 280,000 units at a price of $0.15 per unit for gross proceeds of $42,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant is entitled the holder to purchase one common share at a price of $0.20 per share for a period of 18 months. The Company incurred cash commission of $3,360 and granted 8,000 common share purchase warrants as finders' fees. The Company recorded $259 in non-cash share issue costs related to the 8,000 warrants. These warrants have the same term and exercise price as the private placement warrants.

On November 19, 2012, pursuant to the option agreement for the Gaspe copper property, the Company issued 100,000 common shares at fair value of $50,000.

On December 22, 2012, the Company closed a non-brokered private placement of 2,003,333 flow-through units at a price of $0.06 per unit for gross proceeds of $120,200. Each unit consisted of one flow through common share and one non-flow through common share purchase warrant. Each whole warrant is exercisable to one common share at a price of $0.09 per share for a two year term. In connection with the flow-through share issuance, the Company recorded a $20,033 flow-through share premium liability calculated as the difference between the share issuance price and the market price at the time of closing. The Company incurred cash commission of $8,176 and granted 136,226 common share purchase warrants as finders' fees. The Company recorded $1,483 in non-cash share issue costs related to the 136,226 warrants. These warrants have the same term and exercise price as the private placement warrants.

On December 28, 2012, the Company closed a non-brokered private placement of 2,090,000 units at a price of $0.05 per unit for gross proceeds of $104,500. Each unit consisted of one common share and one common share purchase warrant. Each whole warrant is exercisable to one common share at a price of $0.07 per share for a two year term. The Company incurred a cash commission of $4,360.

On June 12, 2013, pursuant to the agreement for the Tung Wing option, the Company issued 10,000,000 common shares valued at $0.03 per share to Shenba (see Note 4(c)).

On August 13, 2013, the Company issued 2,000,000 shares in accordance to the Maniwaki West property agreement valued at $0.04 per share (see Note 4(d)).

On November 5, 2013, 3,000,000 shares were issued in accordance to the September 20, 2013 Buckingham North property agreement valued at $0.045 per share (see Note 4(e)).

On December 10, 2013, the Company closed a non-brokered private placement of 540,000 flow-through units at a price of $0.08 per unit for gross proceeds of $43,200. Each unit consisted of one flow through common share and one flow through common share purchase warrant. Each whole warrant is exercisable to one common share at a price of $0.11 per share for a period of eighteen months. All of the consideration received for the units was allocated to share capital and no value was allocated to the warrants. In connection with the flow-through share issuance, the Company recorded a $16,200 flow-through share premium liability calculated as the difference between the share issuance price and the market price at the time of closing. The Company incurred a cash commission of $1,500. In connection with this private placement, $24,000 of the gross proceeds was not received until subsequent to year end.

On December 10, 2013, the Company closed a non-brokered private placement of 1,626,000 units at a price of $0.05 per unit for gross proceeds of $81,300. Each unit consisted of one common share and one common share purchase warrant. Each whole warrant is exercisable to one common share at a price of $0.07 per share for a period of eighteen month. All of the consideration received for the units was allocated to share capital and no value was allocated to the warrants. Of the 1,626,000 units, 1,326,000 units were issued for debts settlements for a total value of $66,300 ($50,000 to related party loans and $16,300 to vendors). The Company incurred a cash commission of $1,440.

During the year ended December 31, 2013, 724,285 warrants were exercised at a price of $0.07 per share.

## CRITICAL ACCOUNTING ESTIMATES

The preparation of these financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions which affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and revenues and expenses for the periods reported. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Significant areas requiring the use of management estimates include the determination of impairment of exploration and evaluation assets and financial instruments, decommissioning liabilities, deferred income tax assets and liabilities, assumptions used in valuing options in share-based payment calculations, indemnification provision for flow-through shares and interest and penalties of flow-through shares. Actual results could differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods.

Under IFRS, the Company defers all costs relating to the acquisition and exploration of its mineral properties ("exploration and evaluation" assets). Any revenues received from such proper ties are credited against the costs of the property. When commercial production commences on any of the Company's properties, any previously capitalized costs would be charged to operations using a unit-of-production method. The Company reviews when events or changes in circumstances indicate the carrying values of its properties to assess their recoverability and when the carrying value of a property exceeds the estimated net recoverable amount, provision is made for impairment in value. IFRS also allows the reversal of impairments if conditions that gave rise to those impairments no longer exist.

The existence of uncertainties during the exploration stage and the lack of definitive empirical evidence with respect to the feasibility of successful commercial development of any exploration property do create measurement uncertainty concerning the estimate of the amount of impairment to the value of any mineral property. The Company relies on its own or independent estimates of further geological prospects of a particular property and also considers the likely proceeds from a sale or assignment of the rights before determining whether or not impairment in value has occurred.

Under IFRS 2 - Share-based Payments, stock options are accounted for by the fair value method of accounting. Under this method, the Company is required to recognize a charge to the statement of loss based on an option-pricing model based on certain assumptions including dividends to be paid, historical volatility of the Company's share price, an annual risk free interest rate, forfeiter rates, and expected lives of the options.

## ADOPTION OF NEW PRONOUNCEMENTS

The Company adopted the following accounting policies effective January 1, 2013:

IFRS 7 – Financial Instruments: Disclosures, requires entities to provide additional information about offsetting of financial assets and financial liabilities that will enable users of financial statements to evaluate the effect or potential effect of netting arrangements, including rights of set-off associated with an entity's recognized financial assets and recognized financial liabilities, on the entity's financial position. The adoption of this IFRS did not impact the Company's financial statements.

IFRS 10, Consolidated Financial Statements, requires an entity to consolidate an investee when it has power over the investee, is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaced SIC-12, Consolidation-Special Purpose Entities, and parts of IAS 27, Consolidated and Separate Financial Statements. The adoption of this IFRS did not impact the Company's financial statements.

IFRS 11 Joint Arrangements, requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC-13 Jointly

Controlled Entities - Non-monetary Contributions by Venturers. The adoption of this IFRS did not impact the Company's financial statements.

IFRS 12, Disclosure of Interests in Other Entities, establishes disclosure requirements for interests in other entities, such as subsidiaries, joint arrangements, associates, and unconsolidated structured entities. The standard carries forward existing disclosures and also introduces significant additional disclosure that address the nature of, and risks associated with, an entity's interests in other entities. The adoption of this IFRS did not impact the Company's financial statements.

IFRS 13, Fair Value Measurement, is a comprehensive standard for fair value measurement and disclosure for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. The adoption of this IFRS did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

IAS 1, Presentation of Financial Statements, has been amended to require entities to separate items presented in other comprehensive income ("OCI") into two groups, based on whether or not items may be recycled to net income in the future. Entities that choose to present OCI items before tax will be required to show the amount of tax related to the two groups separately including prior year comparatives. The adoption of this IFRS did not impact the Company's financial statements.

IAS 28 – Investments in Associates and Joint Ventures As a consequence of the issue of IFRS 10, IFRS 11 and IFRS 12, IAS 28 has been amended and will provided the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee. The adoption of this IFRS did not impact the Company's financial statements

## RECENT ACCOUNTING PRONOUNCEMENTS

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB that are mandatory for future accounting periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

The following standard will be effective for annual periods beginning on or after January 1, 2014:

IFRIC 21 *Levies* - In May 2013, the IASB issued IFRIC 21, an interpretation of IAS 37 - *Provisions, Contingent Liabilities and Contingent Assets* ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past activity or event ("obligating event") described in the relevant legislation that triggers the payment of the levy.

IAS 32 – Financial Instruments: Presentation - In December 2011, the IASB issued an amendment to clarify the meaning of the offsetting criterion and the principle behind net settlement, including identifying when some gross settlement systems may be considered equivalent to net settlement. Earlier application is permitted when applied with corresponding amendment to IFRS 7.

IAS 36 *Impairment of Assets* - In May 2013, the IASB issued amendments to IAS 36 which restricts the requirement to disclose the recoverable amount of an asset or CGU to periods in which an impairment loss has been recognized or reversed. The amendments also expand and clarify the disclosure requirements applicable when an asset or CGU's recoverable amount has been determined on the basis of fair value less cost of disposal. The amendments are effective for annual periods beginning on or after January 1, 2014 and should be applied retrospectively.

Q4 2013 MD & A (expressed in Canadian Dollar) www.maticagraphite.com

IAS 39 Financial Instruments: Recognition and Measurement – In June 2013, the IASB issued a narrow scope amendment to IAS 39. Under the amendment, there would be no need to discontinue hedge accounting if a hedging derivative was novated, provided that certain criteria are met.

The following standard will be effective for annual periods beginning on or after January 1, 2018:

IFRS 9 *Financial Instruments* - In November 2009, as part of the IASB project to replace IIAS 39 *Financial Instruments: Recognition and Measurement*, the IASB issued the first phase of IFRS 9 *Financial Instruments*, that introduces new requirements for the classification and measurement of financial assets. The standard was revised in October 2010 to include requirements regarding classification and measurement of financial liabilities.

The extent of the impact of adoption of these standards and interpretations on the financial statements of the Company has not been determined.

## FINANCIAL INSTRUMENTS AND OTHER INSTRUMENTS

*Classification*

Financial instruments are classified into one of five categories: fair value through profit or loss ("FVTPL"), held-to-maturity, loans and receivables, available-for-sale financial assets or other financial liabilities. All financial instruments are measured at fair value except for loans and receivables, held-to-maturity investments and other financial liabilities which are measured at amortized cost. Subsequent measurement and accounting for changes in the values of these investments will depend on their initial classification as follows: FVTPL financial assets are measured at fair value with changes in fair value recognized in operations. Available-for-sale financial instruments are measured at fair value with changes in fair value recorded in other comprehensive income until the change in value is realized or the instrument is derecognized or permanently impaired.

The Company has classified its cash and cash equivalents as FVTPL. Accounts payable and due to related parties are classified as other financial liabilities.

The following table summarizes the carrying values of the Company's financial instruments:

| | 2013 | 2012 |
|---|---|---|
| | $ | $ |
| FVTPL (i) | 157 | 142,874 |
| Other financial liabilities (ii) | 308,244 | 137,277 |

(i) Cash and cash equivalents
(ii) Accounts payable and due to related parties

Fair value

As at December 31, 2013, the Company's financial instruments consist of cash and cash equivalents, accounts payable and due to related parties. The fair values of these financial instruments approximate their carrying values because of their current nature.

IFRS 7 "Financial Instruments – Disclosures", requires an entity to maximize the use of observable inputs and minimize the use of unobservable inputs when measuring fair value. IFRS 7 establishes a fair value hierarchy based on the level of independent, objective evidence surrounding the inputs used to measure fair value. A financial instrument's categorization within the fair value hierarchy is based upon the lowest level of input that is significant to the fair value measurement. IFRS 7 prioritizes the inputs into three levels that may be used to measure fair value:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical unrestricted assets or liabilities.

Level 2 – Inputs that are observable, either directly or indirectly, but do not qualify as Level 1 inputs (i.e. quoted prices for similar assets or liabilities).

Level 3 – Prices or valuation techniques that are not based on observable market data and require inputs that are both significant to the fair value measurement and unobservable.

The Company's financial instruments measured at fair value on a recurring basis at December 31, 2013 are as follows:

| | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| Cash and cash equivalent | 157 | - | - | 157 |

Credit risk

Financial instruments that potentially subject the Company to concentrations of credit risks consist principally of cash. To minimize the credit risk on cash the Company places the instrument with a financial institution.

Liquidity risk

The Company ensures its holding of cash is sufficient to meet its short-term general and administrative expenditures. All of the Company's financial liabilities have contractual maturities of 30 days or less or are due on demand and are subject to normal trade terms. The Company does not have investments in any asset backed Commercial Paper or similar instruments.

Foreign exchange risk

The Company does not have any foreign exchange risk as all of its transactions are in Canadian dollars.

Interest rate risk

The Company manages its interest rate risk by obtaining the best commercial deposit interest rates available in the market by the major Canadian financial institutions.

## RISK AND UNCERTAINTIES

Exploration for minerals and development of mining operations involve many risks, many of which are outside the Company's control. In addition to the normal and usual risks of exploration and mining, the Company often works in remote locations that lack the benefit of infrastructure or easy access.

The economics of developing gold and other mineral properties are affected by many factors including the cost of operations, variations of the grade of ore mined, fluctuations in the price of gold or other minerals produced, costs of processing equipment and such other factors as government regulations, including regulations relating to royalties, allowable production, importing and exporting of minerals and environmental protection. In addition, the grade of mineralization ultimately mined may differ from that indicated by drilling results and such differences could be material. Depending on the price of gold or other minerals produced, which have fluctuated widely in the past, the Company may determine it is impractical to commence or continue commercial production.

**Reserves and resource estimates**

The mineral and resources estimates disclosed in the Company's public filings are only estimates and no assurances can be given that any particular level of recovery of minerals will be realized or that an identified resource will ever qualify as a commercially minerable deposit which can be legally and economically exploited. The Company relies on laboratory-based recovery models to project estimated ultimate recoveries by ore type at optimal crush sizes. Actual mineral recoveries may exceed or fall short of projected laboratory test results. As stated previously, the grade of mineralization ultimately mined may differ from the one indicated by the drilling results and the difference may be material. Production can be affected by such factors as permitting regulations and requirements, weather, environmental factors, unforeseen technical difficulties, unusual or unexpected geological formations, inaccurate or incorrect geologic, metallurgical or engineering work, and work interruptions among other things. Short-term factors, such as the need for an orderly development of deposits or the processing of new or different grades, may have an adverse effect on mining operations or the results of those operations. There can be no assurance that minerals recovered in small scale laboratory tests will be duplicated in large scale tests under onsite conditions or in production scale operations. Material changes in proven and probable reserves or resource grades, waste-to-ore ratios or recovery rates may affect the economic viability of projects. The estimated proven and probable reserves and resources disclosed in the Company's public filings should not be interpreted as assurances of mine life or of the profitability of future operations.

The Company has engaged expert independent technical consultants to advise it on, among other things, mineral reserves and resources and project engineering. The Company believes these experts are competent and that they have carried out their work in accordance with internationally recognized standards. If, however, the work conducted by these experts is ultimately found to be incorrect or inadequate in any material respect, the Company may experience delays and increased costs.

**Foreign countries, laws and regulations**

If the Company signed definite agreement with Shenba Resources Holdings Limited (“Shenba”) who has the property in United Republic of Tanzania and is exposed to the laws governing the mining industry in United Republic of Tanzania.

**Commodity prices**

The profitability of the Company's operations, if established, will be dependent upon the market price of mineral commodities. Mineral prices fluctuate widely and are affected by numerous factors beyond the control of the Company. The level of interest rates, the rate of inflation, world supply of mineral commodities, consumption patterns, sales of gold by central banks, forward sales by producers, production, industrial and jewellery demand, speculative activities and stability of exchange rates can all cause significant fluctuations in prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political development. The prices of mineral commodities have fluctuated widely in recent years. Current and future price declines could cause commercial production of the Company's properties to become impracticable.

A reduction in the price of gold and copper may prevent the Company's properties from being economically mined or result in the write-off of assets whose value is impaired as a result of low gold prices.

The price of gold and copper may also have a significant influence on the market price of the Company's common shares.

## DISCLOSURE CONTROLS AND INTERNAL CONTROLS OVER FINANCIAL REPORTING

The Company’s Chief Financial Officer and Chief Executive Officer (the "Certifying Officers”) are responsible for establishing and maintaining disclosure controls and procedures (“the Procedures”) which provide reasonable assurance that information required to be disclosed by the Company under provincial or territorial securities legislation (the “Required Filings”) is reported within the time periods specified. Without limitation, the Procedures are designed to ensure that material information relating to the Company is accumulated and communicated to management, including its Certifying Officers, as appropriate to allow for timely decisions regarding the Required Filings.

The Company’s Certifying Officers are also responsible for establishing and maintaining internal controls over financial reporting (“Internal Controls”) and have designed such Internal Controls, or caused it to be designed under their supervision, which provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with IFRS.

During 2013, there were inherent weaknesses in the Internal Controls due to the small size of the Company and its inability to segregate incompatible functions. The Company does not have sufficient size and scale to warrant the hiring of additional staff to correct the weakness at this time.

The Certifying Officers evaluate the Company’s Internal Controls on a regular basis and have certified that there were no change in the Company’s Internal Controls during the period ended December 31, 2013 that materially affected, or is reasonably likely to materially affect, the Company’s Internal Controls.

## APPROVAL

The Board of Directors of Matica Graphite Inc. has approved the disclosure contained in this MD&A. A copy of this MD&A will be provided to anyone who requests it and can be obtained along with additional information, on the SEDAR website at www.sedar.com.