

**GRAPHITE ONE RESOURCES INC.**  
**(Formerly Cedar Mountain Exploration Inc.)**  
(the "Company" or "Graphite One")

**Form 51-102F1**  
**MANAGEMENT'S DISCUSSION AND ANALYSIS**  
**FOR THE THREE AND NINE MONTHS ENDED JUNE 30, 2013**

The following Management's Discussion and Analysis ("MD&A"), prepared as of August 28, 2013, should be read together with the unaudited condensed interim consolidated financial statements of the Company for the three and nine months ended June 30, 2013 and 2012 and related notes thereto, which are prepared in accordance with IAS 34 "Interim Financial Reporting" using accounting principles consistent with International Financial Reporting Standards ("IFRS"). All amounts are stated in Canadian dollars unless otherwise indicated. The reader should be aware that historical results are not necessarily indicative of future performance.

**Forward Looking Statements**

Forward-looking statements look into the future and provide an opinion as to the effect of certain events and trends on the business. Certain statements contained in this MD&A constitute forward-looking statements. The use of any words such as "anticipate", "continue", "estimate", "expect", "may", "will", "project", "should", "believe" and similar expressions are intended to identify forward-looking statements. These forward-looking statements are based on current expectations and various estimates, factors and assumptions and involve known and unknown risks, uncertainties and other factors.

It is important to note that:

- Unless otherwise indicated, forward-looking statements in this MD&A describe the Company's expectations as of August 28, 2013.
- Readers are cautioned not to place undue reliance on these statements as the Company's actual results, performance or achievements may differ materially from any future results, performance or achievements expressed or implied by such forward-looking statements if known or unknown risks, uncertainties or other factors affect the Company's business, or if the Company's estimates or assumptions prove inaccurate. Therefore, the Company cannot provide any assurance that forward-looking statements will materialize.
- The Company assumes no obligation to update or revise any forward-looking statement, whether as a result of new information, future events or any other reason except as required by law.

The mineral resource estimates reported in this MD&A were prepared in accordance with Canadian National Instrument 43-101 Standards of Disclosure for Mineral Projects ("NI 43-101"), as required by Canadian securities regulatory authorities. For United States reporting purposes, the United States Securities and Exchange Commission ("SEC") applies different standards in the classification of mineralization. In particular, while the terms "measured," "indicated" and "inferred" mineral resources are required pursuant to NI 43-101, the SEC does not recognize such terms. Canadian standards differ significantly from the requirements of the SEC. Investors are cautioned not to assume that any part or all of the mineral deposits in these categories constitute or will ever be converted into reserves. In addition, "inferred" mineral resources have a great amount of uncertainty as to their existence and great uncertainty as to their economic and legal feasibility. It cannot be assumed that all or any part of an inferred mineral resource will ever be upgraded to a higher category. Under Canadian securities laws, issuers must not make any disclosure of results of an economic analysis that includes inferred mineral resources, except in rare cases.

For a description of material factors that could cause the Company's actual results to differ materially from the forward-looking statements in this MD&A, please see "Mining Risks" and "Business Risks".

### **Nature of Operations and Going Concern**

Cedar Mountain Exploration Inc. was incorporated in Alberta and commenced operations on March 16, 2006. On October 18, 2007, the Company closed its initial public offering and began trading on the TSX-Venture exchange under the symbol CED on October 29, 2007. On March 23, 2012, the Company changed its name to Graphite One Resources Inc. ("Graphite One" or the "Company") and adopted the symbol on the TSX Venture exchange of GPH effective March 27, 2012. On June 11, 2012 the Company began trading in the over the counter market in the United States on the OTCQX under the symbol GPHOF. Graphite One is the parent company of its consolidated group. The Company's head office address is 1280, 885 West Georgia Street, Vancouver, BC, V6C 3E8.

Graphite One is in the business of acquiring and exploring exploration and evaluation properties. The Company has not yet determined whether its properties contain mineral reserves that are economically recoverable and the Company is carrying out active exploration efforts on all of its exploration and evaluation properties. The recoverability of the amounts shown for exploration and evaluation properties is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and ultimately upon future profitable production or proceeds from disposition of the exploration and evaluation properties.

The unaudited condensed interim consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period. The Company's ability to continue to meet its obligations and carry out its planned exploration activities is uncertain and dependent upon the continued financial support of its shareholders and on securing additional financing. There is, however, no assurance that any such initiatives will be sufficient and, as a result, there is significant doubt regarding the going concern assumption and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern. The unaudited condensed interim consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations for the foreseeable future. These adjustments could be material.

### **Exploration and Evaluation Properties**

#### **2012 Prospect under option – Graphite Creek**

On January 17, 2012, the Company announced that it had entered into an option agreement (the "Graphite Creek Option") with an arm's length party to earn a 100% interest in the Graphite Creek Property, now a 6,799 hectare property on the Seward Peninsula of Alaska. The Graphite Creek Property is an early stage exploration Property which the Company has assessed is of high prospectivity for large-flake, high grade graphite. To complete the Graphite Creek Option, the Company must incur exploration expenditures on the Graphite Creek property totaling United States dollars ("USD") 1,525,000 over three years (completed), and make aggregate cash payments to the vendor of the Graphite Creek project totaling USD 425,000, including: USD 25,000 upon entering the Graphite Creek Option (completed); USD 50,000 due March 1, 2012 (completed); USD 100,000 due March 1, 2013 (completed), and; USD 250,000 on March 1, 2014.

Upon completion of the Graphite Creek Option, the Company's interest in the Graphite Creek Property will be governed by an initial 20 year lease with provisions for renewal (the "Graphite Creek Lease"). During the term of the Graphite Creek Lease, the Company must pay an advance royalty (the "Advance Royalty") of USD 30,000 per year for each of the first five years and increasing by USD 10,000 per year thereafter, until such time as the Graphite Creek Property commences production. Upon commencement of production, the Graphite Creek property shall be subject to a 5% net smelter royalty in favour of the vendor of the Graphite Creek Property (the "Graphite Creek NSR"), of which 50% of the total amount payable under the Graphite Creek NSR may be settled by applying advance royalties paid prior to production. The Company shall have the additional option of reducing the Graphite Creek NSR to 3% by making cash payments to the beneficiary of the Graphite Creek Royalty of USD 2,000,000 for each 1% of the total 5% Graphite Creek Royalty.

The total Graphite Creek Property land package comprises 129 claims totaling 16,801 acres (6,799 hectares), essentially controlling all prospective lands of known graphite mineralization in the region. 42 of the claims are state select claims which are awaiting conveyance by the US federal government to the state of Alaska. The Property is 3 kilometres away from intertidal waters at Windy Cove, approximately 20 kilometres away from road systems, and 3 kilometres from an airstrip to the southeast.

The Graphite Creek Property is historically characterized by a series of large-flake, high-grade graphite deposits or showings that crop out in incised creek valleys on the northern, lowermost slopes of the Kigluaik Mountains. The graphite showings were first discovered after the 1898 Cape Nome gold rush, and have been reported under the guise of several names including the Uncle Sam, Tweet and Kigluaik graphite deposits. The showings were intermittently mined from 1907 to 1920 with some 580 tonnes of hand-sorted graphite mined from talus and adits (small <10 m excavations into exposed outcrop) that penetrated high-grade graphitic zones. Prior to Graphite One's interest, the deposits were last explored during the mid-1990s when minor mineralogical (x-ray diffraction) and chemical work was conducted. The graphite showings were never drill-tested prior to Graphite One's 2012 exploration program.

The graphite deposits consist mainly of segregations (lenses and streaks) of semi-massive to massive graphite and graphite disseminations that are hosted in schistose rocks within the lower granulite facies portion of the Kigluaik Group. Based on surface exposures and workings, the deposits are known to strike in a northeasterly direction adjacent to the high angle, strike-slip Kigluaik Fault. Graphite zones within the schistose rocks occur as: 1) massive resistant graphite segregations in sillimanite-garnet-biotite-quartz schist; 2) flaky graphitic sillimanite-garnet-biotite-quartz schist consisting of 15-55% large graphite flakes; and 3) graphitic biotite-quartz schist containing 1-10% disseminated graphite. Historical sampling suggests that the sillimanite-garnet-biotite-quartz schist has massive 'high-grade' graphite segregations (and disseminated graphite) that can yield up to 60% graphite, and the biotite-quartz schist contains 2% to 6% disseminated graphite.

On June 13, 2012 the company announced it had completed the airborne geophysical survey conducted by SkyTEM Canada Inc. ("SkyTEM") which was comprised of both magnetics and electromagnetics (SkyTEMs' Dual-Moment, Time-Domain Electromagnetic ("TDEM") System). The survey was flown at 50 metre spaced lines. A total of 1,523.5 line-kilometres were flown in two phases. The first phase collected survey data during May 2012 and the second phase collected survey data over newly acquired claims during July and August 2012. The two survey phases were collected over adjoining blocks using SkyTEM systems with identical system calibrations. The main EM conductor that is coincident with graphite occurrences has now doubled to more than 18 kilometres in strike length. As well, a second EM conductor (the 'south zone' or 'Araujo zone') was identified during 2012 yet remains virtually unexplored.

On June 27, 2012 an aggressive \$4.5 million exploration program at the Graphite Creek Property which consisted of drilling, prospecting, geological mapping and sampling along conductors

delineated from the airborne survey and previously defined graphite-bearing schist - to quickly move towards a National Instrument 43-101 compliant resource, commenced.

A total of 591 rock grab samples were sampled throughout the Graphite Creek Property during 2012 fieldwork. Rock sample types include graphitic sillimanite-garnet-biotite-quartz and biotite-quartz ( $\pm$ garnet) schistose units plus localized intrusive diorite. All samples were analyzed for specific gravity and graphitic carbon (Cg). Of the 591 samples, 11 samples yielded  $>45\%$  Cg (up to  $80.9\%$  Cg), 47 samples had  $>10\%$  Cg and 137 samples had  $>3\%$  Cg. Fifteen bulk samples of between 558 kg and 739 kg (totaling 9,916 kg in three composite samples) were collected from three different areas including Graphite Creek, Christophosen Creek and Child Drainage. Bulk pit sample analysis is pending.

The 2012 drill program included 18 drillholes totaling 4,249 m. The majority (17 drillholes) were conducted in the central portion of the Property near Graphite Creek. These 17 drillholes are spaced about 200 m apart with infill drilling initiated on the western portion of the drill zone at a spacing of 50 m. With the exception of one drillhole (12GCH005;  $-87^\circ$  dip), all drillholes were drilled at  $-49^\circ$  to  $-51^\circ$  dip to test the true thickness of mineralization; the graphite bearing rocks dip at approximately  $60^\circ$ . The drill core was sampled approximately every metre (4,106 samples), which resulted in 208 samples yielding  $>10\%$  Cg and 1,249 samples with  $>3\%$  Cg. All drillholes encountered graphite mineralization including, for example, 173 m of  $5.39\%$  Cg with sub-intersections of  $10.03\%$  Cg over 55 m and  $12.01\%$  Cg over 42 m (drillhole 12GCH005), and 147 m of  $4.0\%$  Cg with sub-intersections of  $6.56\%$  Cg over 58 m and  $10.14\%$  Cg over 32 m (drillhole 12GCH006). The results confirm that graphite mineralization exposed at surface extends to vertical depths of over 225 m.

The 18th drillhole completed during the 2012 program represents a step-out hole to test graphite mineralization along the geophysical conductor. Drillhole 12GCH008 was collared approximately 2.2 km west of the main drill zone. Drill core analytical results include 177 m of  $3.0\%$  Cg including  $6.02\%$  Cg over 52 m and  $7.07\%$  Cg over 31 m. The step-out hole shows the potential for continuous high-grade mineralization along the geophysical conductor.

With respect to metallurgical work, in 2011, Graphite One collected four samples of the garnet-bearing schist that yielded 9.1 to  $21.6\%$  carbon. Screening analyses of 2011 samples, which included high-grade massive, disseminated and mixed composite samples that were crushed to -10 mesh, shows that about 57-71 wt. % ( $57\%$  to  $64\%$  of the graphite distribution) is contained in the 10 by 40 mesh size fraction, with 8-18 wt. % ( $11\%$  to  $20\%$  of the graphite distribution) in the 40 by 80 mesh fraction. An additional five samples were taken for flake size distribution during the 2012 exploration campaign and results are pending.

During 2012, Graphite One tested 4 samples from drill core for flake size analysis. The samples analyzed contained  $8.7\%$ ,  $13.7\%$ ,  $14.9\%$  and  $8.0\%$  Cg, respectively. From these samples  $62.9\%$ ,  $70\%$ ,  $63.9\%$ , and  $59.3\%*$  of the graphite recovered are large flakes (\*samples were crushed to 10 mesh so results may be understated because the 2011 samples contained up to  $10.5\%$  +10 mesh material). The analytical work was conducted at Hazen Laboratories, Co, USA. Based on the 2011 and 2012 tests, the Graphite Creek Property is known to be a flake graphite deposit whereby the majority of the flake is considered to be large flake.

The Graphite Creek Maiden Resource estimate area is associated with the main drill area of the 2012 drill program. The estimate area covers an area of 5.5 square kilometres. Subsequently, it is important to point out that the resource estimate area covers only about  $14\%$  of the potential strike length of the geophysical anomaly thought to be associated with graphite mineralization.

<b>Graphite One Inferred Resource</b>			
Cut-Off Grade (% Cg <sup>a</sup> ) by LECO	Tonnage (Million)	Graphite % (Cg) by LECO	In Situ Graphite (Metric Tonnes)
2	164.5	4.61	7,583,450
<b>3<sup>b</sup></b>	<b>107.2</b>	<b>5.78</b>	<b>6,196,160</b>
5	54.98	7.66	4,211,468
7	25.44	9.69	2,465,136
10	7.8	13.49	1,052,220

a:Cg – Graphitic Carbon – b: 3% COG being the base case

The maiden mineral resource estimate was prepared by Claude Duplessis, Eng., consultant for SGS Canada Inc., and he is an independent Qualified Person under NI 43-101, using the Canadian Institute of Mining, Metallurgy and Petroleum (CIM) Standards on Mineral Resources and Reserves, Definitions and Guidelines. Dean Besserer, P.Geol., Vice President of Exploration for the Company and a “Qualified Person” under NI 43-101, is responsible for and has reviewed and approved the technical content of this press release. A NI 43-101 compliant Technical Report describing the resource has been filed on the Company’s website and on SEDAR.

The deposit remains open along strike to both the east and west, and down dip. The drilling program and resource estimate confirm that near surface graphite mineralization exists in an area that is now over 2.2 kilometer in length. The deposit exists along the north dip slope of the Kigluaik Mountains and the graphite bearing rocks along North 61 degrees dip at approximately 58 degrees to the north with good continuity between holes. The graphitic mineralization is outcropping on the hill side and a very low waste to ore ratio envisaged, considering an open cut surface potential operation.

The mineral resources were estimated using analytical data from 17 of 18 recent surface drill holes for which 3913 samples were assayed for Cg using the LECO analytical method (composite to 2m). Drill holes were spaced 200m apart with some infill drilling at 50m spacing. Interpretation and modeling of five 3D wireframe envelopes were completed to outline the mineralized graphitic horizons. A block model of 5 m (E-W) by 2 m (N-S) by 5 m (vertical) was interpolated using inverse square of the distance using a maximum of 6 composite to estimate each block within the mineralized envelope(s). The specific gravity (S.G.) was fixed to 2.7 kg/m<sup>3</sup> and is based on core measurements. The base case cut-off grade of 3% Cg is based on a conservative approach of resource recovery of 80% for a 95% Graphite concentrate with average selling price of \$1200 /tonne.

The independent QP took in situ samples and confirms extremely high grade near surface ranging from 5.09 % to 60.2% Cg, these control samples were analyzed at SGS Lakefield facilities.

Graphite One has its own core logging and sample preparation laboratory/ facility in Nome, Alaska. The sample preparation laboratory was installed, and is being managed by Actlabs, Ancaster, Ontario. This ensures Graphite One maintains the highest level of QA/QC and ensures timely receipt of analytical results.

As demonstrated by the step out drillhole (Drill Hole 12GCH008), which is 2.2km west of the inferred resource, surface grab samples and the airborne geophysical survey signature brings significant upside potential for resource increase as the deposit remains open at depth and along strike.

<b>Graphite One Potential Resource*</b>			
	Tonnage (Million)	Graphite % (Cg) by LECO	Insitu Graphite (Metric Tonnes)
<b>Western Extension</b>	235 to 492	4.2 to 7.9	9,870,000 to 38,868,000

\*The potential quantity and grade is conceptual in nature as there has been insufficient exploration to define a mineral resource and it is uncertain if further exploration will result in the target being delineated as a mineral resource.

The approximate tonnages and grades have been determined by taking the results from drillhole 12GCH008 (52m of 6.09% Cg) plus or minus 30 per cent grade and considering the strike extent from the existing inferred resource considering that airborne geophysics, surface mapping and sampling has shown continuity of the mineralized rocks on surface, at depth and along strike.

On April 29, 2013, the Company announced that a first pass beneficiation test at Activation Laboratories Ltd. ("ActLabs"), Thunder Bay, Ontario, demonstrated a leaching process capable of producing a high purity of 99.2% graphitic carbon (Cg) from a rough concentrate. Metallurgical test work from Graphite Creek material is ongoing to develop a simple concentration and leaching process to produce an ultra-high purity (99.9% Cg) graphite product.

***Kelly Creek Mineral Property on Seward Peninsula, Alaska***

On May 24<sup>th</sup>, 2012, the Company announced that it had relinquished the Kelly Creek Mineral Property.

**Overall Performance**

The Company has no operating revenue to date. The Company relies on the issuance of common shares to finance acquisitions, exploration on its exploration and evaluation properties, and to provide general operating working capital. The majority of the Company's financial assets are expended in the acquisition and exploration of its exploration and evaluation properties which is reflected in the Company's unaudited condensed interim consolidated financial statements as exploration and evaluation properties on the balance sheet.

## Selected Annual Information

The following table summarizes financial data for annual operations reported by the Company for the years ended September 30, 2012, 2011, and 2010.

	Prepared in accordance with IFRS		Prepared in accordance with Canadian GAAP
	September 30, 2012	September 30, 2011	September 30, 2010
Current assets (\$)	990,948	925,872	807,837
Total Assets (\$)	5,757,680	5,818,696	1,940,053
Exploration and evaluation properties (\$)	4,444,125	4,788,842	1,073,872
Current liabilities (\$)	317,964	359,125	249,831
Net loss (\$)	(6,776,181)	(1,292,730)	(1,447,042)
Basic and diluted net loss per common share (\$)	(0.09)	(0.03)	(0.05)
Weighted average number of common shares outstanding	71,961,162	44,722,549	27,139,159

## Summary of Quarterly Results

The following is a summary of selected financial data for the Company for the eight most recently completed quarters.

Period ended	Jun 30 2013	Mar 31 2013	Dec 31 2012	Sep 30 2012	Jun 30 2012	Mar 31 2012	Dec 31 2011	Sep 30 2011
Net loss (\$)	(211,564)	(421,597)	(517,560)	(322,386)	(356,824)	(5,920,739)	(176,232)	(321,750)
Basic and diluted loss per common share (\$)	(0.00)	(0.00)	(0.01)	(0.00)	(0.00)	(0.10)	(0.00)	(0.01)

## Results of Operations

### Three months ended June 30, 2013

During the three months ended June 30, 2013 (“the current quarter”), the Company incurred a net loss of \$211,564 compared to a net loss of \$356,824 during the three months ended June 30, 2012 (the “third quarter of 2012”).

General and administrative expenses for the current quarter, consisting of management fees and salaries, marketing and investor relations, office and administration and professional fees, totaled \$211,238 (2012 - \$333,272). General and administrative expenses in the current quarter, compared to the third quarter of 2012, include the following:

- Marketing and investor relations costs of \$59,625 in the current quarter are down from \$139,628 in the third quarter of 2012. The decrease is primarily due to costs associated with the Company’s listing on the OTCQX included in the third quarter of 2012. Also contributing to the decrease in IR costs is the curtailment of IR consulting fees as part of a concerted effort on behalf of management to reduce costs due to current market conditions.

- Management fees and salaries decreased to \$90,259 from \$110,715 in the third quarter of 2012 driven primarily by a reduction in accounting and admin costs included in management fees.
- A decrease in office and administrative expenses to \$49,207 (2012 - \$75,691) was driven by a decrease in costs related to administrative staff and office rent as well as decreased insurance costs.
- Professional fees increased in the quarter to \$12,147 (2012 – \$7,238) as the result of higher legal fees.

Share based payments expense, a non-cash expense, amounted to nil (2012 – \$32,812). Share options granted for both the current quarter and the third quarter of 2012 were nil. Share based payment amounts were determined based on the fair value of share options granted, vested and approved in the quarter.

#### Nine months ended June 30, 2013

During the nine months ended June 30, 2013 (“the current year”), the Company incurred a net loss of \$1,150,721 compared to a net loss of \$6,453,795 during the nine months ended June 30, 2012 (“the previous year”).

General and administrative expenses for the current quarter, consisting of management fees and salaries, marketing and investor relations, office and administration and professional fees, totaled \$950,568 (2012 - \$746,066). General and administrative expenses for the nine month periods ended June 30, 2013 and 2012 included the following:

- Marketing and investor relations costs of \$363,641 compared with \$294,209 in the previous year were driven by increased marketing and IR consulting costs partly offset by a decrease in costs associated with the Company’s listing on the OTCQX included in the previous year.
- Management fees and salaries increased to \$305,459 compared with \$250,646 in the previous year. Key drivers of this increase include the promotion of the VP of Investor Relations to President and the creation of a position for the VP Exploration partly offset by payments made for bonuses to management in the previous year.
- An increase in office and administrative expenses to \$226,576 (2012 - \$169,756) was driven primarily by higher costs related to office rent.
- Professional fees increased to \$54,892 from \$31,455 in the previous year as the result of higher legal fees.

Share based payments expense, a non-cash expense, amounted to \$201,679 (2012 – \$820,833). Share options granted during the nine months ended June 30, 2013 were 1,355,000 (2011 – 3,400,000). Share based payments amounts were determined based on the fair value of share options granted, vested and approved in the quarter.

The Company wrote off certain mineral properties in the nine months ended June 30, 2012, increasing the net loss by \$4,911,063.

## Liquidity and Capital Resources

	June 30 2013	Mar 31 2013	Dec 31 2012	Sep 30 2012	June 30 2012	Mar 31 2012	Dec 31 2011	Sep 30 2011
Working Capital (\$)	(169,603)	107,337	114,179	672,984	3,997,827	5,781,980	284,458	566,747

Working capital at June 30, 2013 was a deficit of \$169,603 compared to positive working capital of \$3,997,827 at June 30, 2012. On August 27, 2013, the Company announced the arrangement of a \$2.2 million financing with closing anticipated by September 15, 2013.

The unaudited condensed interim consolidated financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future.

The continuing operations of the Company are dependent upon the Company's ability to arrange adequate financing in the near term. However, there can be no assurance that the Company will be able to obtain adequate financing in the future or that the terms of such financing will be favorable. If adequate financing is not available when required, the Company may be required to delay, scale back or eliminate various programs and may be unable to continue in operation. The Company may seek such additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests.

### Financial Instruments and risk management

#### Financial instrument classification

Graphite One's financial instruments recognized on the balance sheet consist of cash, investment, trade and other payables, other receivables, accrued liabilities and refundable deposits.

Upon initial recognition, Graphite One has designated its cash, refundable deposits and other receivables as loans and receivables, and accordingly they are measured at amortized cost.

The Company holds common shares of a private corporation, received in the year ended September 30, 2011 as consideration for the sale of a mineral property. These common shares are classified as available for sale investments, and are carried at cost as the shares are not yet traded on an active market.

Trade and other accounts payable have been classified as other liabilities, and are measured at amortized cost.

The estimated fair market values of Graphite One's financial instruments approximate their carrying values due to their short-term nature, other than investment, which is carried at cost.

The Company has no unrecognized financial instruments or derivative financial instruments.

#### Capital management

The Company's capital consists of equity.

The Company's objectives in managing its capital are: to maintain corporate and administrative functions necessary to support its operations and corporate functions; to perform mineral exploration activities on its exploration projects; and to seek out and acquire new projects of merit. Graphite One manages its capital structure in a manner that provides sufficient funding for

operational and capital expenditure activities. Funds are secured, when necessary, through debt funding or equity capital raised by means of private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the case of working capital deficits.

There have been no changes in the Company's capital management in the current year.

### Risk management

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

#### *Interest rate risk*

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments. The Company's cash balances held at financial institutions earn interest at rates which vary according to prevailing rates. The Company does not deem the associated interest rate risk to be material.

#### *Credit risk*

Credit risk is the risk of potential loss to the Company if a counter party to a financial instrument fails to meet its contractual obligations. The Company is not exposed to any material credit risk.

#### *Foreign currency risk*

Foreign currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. Graphite One maintains the majority of its cash reserves in Canadian Dollars. A portion of the Company's funds are held in United States Dollars and are, therefore, subject to fluctuations in foreign exchange rates.

At June 30, 2013, the Company has certain monetary items denominated in United States Dollars. Based on these net exposures, a 10% appreciation or depreciation of the Canadian Dollar against the United States Dollar would result in an increase or decrease of \$400 in the Company's net loss.

#### *Liquidity risk*

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due.

At June 30, 2013, the Company's current liabilities consisted of accounts payable and accrued liabilities of \$222,592 (September 30, 2012 - \$317,964), due primarily within the next fiscal quarter. The Company's cash of \$14,663 at June 30, 2013 was not sufficient to pay these current liabilities. As at August 28, 2013, the Company had a working capital deficit of approximately \$220 thousand. The Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms. On August 27, 2013, the Company announced the arrangement of a \$2.2 million financing with closing anticipated by September 15, 2013.

At June 30, 2013, Graphite One's working capital was a deficit of \$169,603 (September 30, 2012 – positive \$672,984) and does not have any long-term liabilities. The continuing operations of the Company are dependent upon its ability to obtain adequate financing and to commence profitable operations in the future. The Company will have to seek additional debt or equity financing, and there can be no assurance that such financing will be available on terms acceptable to the Company.

## Related Party Transactions

### Relationships

CC Management Services Inc. (“CC”)

859053 Alberta Ltd. (“859053”)

Huston Financial Corp. (“Huston”)

878160 Alberta Ltd. (“878160”)

Novus Leadership Services Ltd. (“Novus”)

Key management

### Nature of the relationship

CC is a private company controlled by an officer and director of the Company. CC provides management services to the Company

859053 Alberta Ltd. is a private company controlled by a former officer and director of the Company. 859053 provided management services to the Company up until March 2012.

Huston Financial Corp. is a private company controlled by an officer and director of the Company. Huston provides management services and IR Consulting to the Company.

878160 is a private company controlled by an officer and director of the Company. 878160 provides geological consulting and management services to the Company.

Novus is a private company controlled by an officer and director of the Company. Novus provides management services to the Company.

Key management are those personnel having the authority and responsibility for planning, directing and controlling the Company and include the President, Chief Executive Officer, Directors, Chief Financial Officer, and VP Exploration.

Services provided for the nine months ended June 30, 2013	Management Services	IR Consulting	Geological Services
CC Management Services Inc.	\$ 112,500	\$ -	\$ -
Huston Financial Corp.	33,750	101,250	-
878160 Alberta Ltd.	45,000	-	65,000

Services provided for the nine months ended June 30, 2012	Management services	IR Consulting	Geological Services
CC Management Services Inc.	\$ 125,000	\$ -	\$ -
Novus Leadership Services Ltd.	\$ 42,000		
878160 Alberta Ltd.			\$ 24,200
859053 Alberta Ltd.	12,000	-	-
Huston Financial Corp.	55,417	62,502	-

Key Management compensation includes:

	<b>Nine months ended June 30,</b>	
	<b>2013</b>	<b>2012</b>
Benefits	\$ 20,644	\$ 1,164
Salary	61,209	-
Stock options	164,500	506,250
	<u>\$ 246,353</u>	<u>\$ 507,414</u>

Amounts owing to related parties are non-interest bearing, unsecured and due on demand. The transactions were in the normal course of operations. At June 30, 2012, there were no amounts owing to related parties. As at June 30, 2013, the following amounts were owing to related parties:

CC Management	\$25,000
Huston Financial Corp.	\$30,000
878160 Alberta Ltd.	\$25,000

### **Management Contracts**

The Company, under agreement effective April 2011, pays a corporation controlled by the Chief Executive Officer \$12,500 per month for management services.

The Company, under agreement effective April 2012, paid a private company controlled by the President \$15,000 per month for management and investor relations services until August 31, 2013 at which time the contract was reduced to \$12,500.

The Company, under agreement effective February 2012 until August 2012, paid a private company controlled by the Chief Financial Officer \$7,000 per month for management services. Beginning in September 2012 until August 31, 2013, the CFO is paid a salary of \$7,000 per month. Effective September 1, 2013, the CFO's salary has been reduced to \$6,000 per month.

The Company, under agreement effective October 2012, paid a private company controlled by the VP Exploration \$10,000 per month for geological consulting and management fees. Effective March 2013, this amount was increased to \$15,000. Effective May 1, 2013, the amount was reduced to \$12,500 per month.

Management salaries have been accrued in the financial statements but have not been paid since April 30, 2013. The reductions in management salaries indicated above are in response to current market conditions.

### **Outstanding Share Data**

The following table summarizes the Company's outstanding share capital:

	<b>August 28, 2013</b>
Common shares issued and outstanding	90,174,684
Warrants outstanding (weighed average exercise price \$0.32)	20,460,785
Agent options, finder's warrants outstanding (weighted average exercise price \$0.20)	3,054,000
Stock options outstanding (weighted average exercise price \$0.25)	8,000,000
Fully diluted common shares outstanding	<u><b>121,689,469</b></u>

## **Additional Disclosure for Venture Issuers without Significant Revenue**

Details of the Company's general and administrative expenses for the three months ended June 30, 2013 and 2012 are included in the results of operations section of this MD&A. Details of the Company's expenditures relating to exploration and evaluation properties are presented in note 8 to the unaudited condensed interim consolidated financial statements.

### **Mining Risks**

The Company is subject to the risks typical in the mining business including uncertainty of success in exploration and development; operational risks including unusual and unexpected geological formations, rock bursts, particularly as mining moves into deeper levels, cave-ins, flooding and other conditions involved in the drilling and removal of material as well as environmental damage and other hazards; risks that intended drilling schedules or estimated costs will not be achieved; and risks of fluctuations in the price of commodities and currency exchange rates. Metal prices are subject to volatile price movements over short periods of time and are affected by numerous factors, all of which are beyond the Company's control, including expectations of inflation, levels of interest rates, sales of gold by central banks, the demand for commodities, global or regional political, economic and banking crises and production rates in major producing regions. The aggregate effect of these factors is impossible to predict with any degree of certainty.

### **Business Risks**

Natural resources exploration, development, production and processing involve a number of business risks, some of which are beyond the Company's control. These can be categorized as operational, financial and regulatory risks.

- Operational risks include finding and developing reserves economically, marketing production and services, product deliverability uncertainties, changing governmental law and regulation, hiring and retaining skilled employees and contractors and conducting operations in a cost effective and safe manner. The Company continuously monitors and responds to changes in these factors and adheres to all regulations governing its operations. Insurance may be maintained at levels consistent with prudent industry practices to minimize risks however the Company is not fully insured against all risks nor are all such risks insurable.

- Financial risks include fluctuations in commodity prices, interest rates and foreign exchange rates, all of which are beyond the Company's control.

- Regulatory risks include possible delays in getting regulatory approval for transactions that the Board of Directors believe to be in the best interest of the Company, increased fees for filings, and the introduction of ever more complex reporting requirements, the cost of which the Company must meet in order to maintain its exchange listing.

### **Outlook**

The Company's primary focus is the exploration and development of the Graphite Creek Project and raising necessary capital to fund these activities. In addition to the exploration at this Property, the Company may evaluate other prospects worthy of exploration and development. The ability of the Company to do so is contingent upon its ongoing ability to raise the risk capital necessary to advance such prospects.

### **Approval**

The Board of Directors of the Company have approved the disclosure contained in this MD&A.

**Other Information**

Additional information related to the Company is available for viewing on SEDAR at [www.sedar.com](http://www.sedar.com) and on the Company's website at [www.graphiteoneresources.com](http://www.graphiteoneresources.com).