



## Management Discussion and Analysis

For the Three Month Period Ended December 31, 2013

REPORT DATED: February 26, 2014

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## 1. Introduction

This management discussion and analysis (“**MD&A**”), dated February 26, 2014, provides a review of the financial position and results of operations of Almonty Industries Inc. (TSX-V: AII) (“**Almonty**” or the “**Company**”). This MD&A reviews the business of Almonty and discusses the Company’s financial results for the three month period ended December 31, 2013. It should be read in conjunction with the unaudited consolidated interim financial statements and notes thereto of the Company for the three month period ended December 31, 2013.

The Company’s management is responsible for the preparation of the consolidated financial statements as well as other information contained in this MD&A. The board of directors of Almonty (the “**Board of Directors**”) is required to ensure that management assumes its responsibility in regard to the preparation of the Company’s financial statements. To facilitate this process the Board of Directors has created an audit committee (the “**Audit Committee**”). The Audit Committee meets with members of the management team to discuss the operating results and the financial results of the Company, before making their recommendations and submitting the financial statements and MD&A to the Board of Directors for review and approval. Following the recommendation of the Audit Committee, the Board of Directors approved the unaudited consolidated interim financial statements for the three month period ended December 31, 2013 and this MD&A on February 26, 2014.

The unaudited consolidated interim financial statements of the Company for the three month period ended December 31, 2013 have been prepared in accordance with International Financial Reporting Standards (“**IFRS**”).

All currency figures in this MD&A appear in thousands of Canadian dollars unless otherwise stated.

Additional information about the Company, including the unaudited consolidated interim financial statements of the Company for the three month period ended December 31, 2013, is available on the Company’s website at [www.almonty.com](http://www.almonty.com) and on SEDAR ([www.sedar.com](http://www.sedar.com)) under Almonty’s profile.

### **Forward-Looking Information**

This MD&A contains forward-looking statements that reflect management’s expectations, estimates and projections concerning future events in relation to the Company’s business and the economic environment in which it operates. Forward-looking statements may include, but are not limited to, statements with respect to possible acquisitions, demand for tungsten, tungsten prices, tungsten recovery and production, reductions in operating costs, improvements in efficiencies or reduction in dilution, future remediation and reclamation activities, future mineral exploration, the estimation of mineral reserves and mineral resources, the realization of mineral reserve and mineral resource estimates, the timing of activities and the amount of estimated revenues and expenses, the success of exploration activities, permitting time lines, the success of mine development and construction activities, the success of future mine operations, the success of other future business operations, requirements for additional capital and sources and uses of funds. Any statements that express or involve discussions with respect to predictions, expectations, beliefs, plans, projections, objectives, assumptions or future events or performance (often, but not always, using words or phrases such as “expects”, “anticipates”, “plans”, “estimates”, “intends”, “strategy”, “goals”, “objectives” or stating that certain actions, events or results “may”, “could”, “would”, “might” or “will” be taken, occur or be achieved, or the negative of any of these terms and similar expressions) are not statements of historical fact and may be “forward-looking statements”.

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Forward-looking statements are subject to a variety of known and unknown risks, uncertainties and other factors which could cause actual events, results, performance or achievements to be materially different from any future results, performance or achievements expressed or implied by such forward-looking statements. Such factors include, but are not limited to, the inability of the Company to maintain its interest in its mineral projects or to obtain or comply with all required permits and licences, risks normally incidental to exploration and development of mineral properties, uncertainties in the interpretation of drill results, the possibility that future exploration, development or mining results will not be consistent with expectations, changes in governmental regulation adverse to the Company, lack of adequate infrastructure at the mineral properties, economic uncertainties, the inability of the Company to obtain additional financing when and as needed, competition from other mining businesses, the future price of tungsten and other metals and commodities, fluctuation in currency exchange rates, title defects and other related matters. See Section 9, “Risks and Uncertainties”, in this MD&A for a further discussion of factors that could cause the Company’s actual results, performance or achievements to be materially different from any anticipated results, performance or achievements expressed or implied by forward-looking statements. The forward-looking statements in this MD&A represent the expectations of management as of the date hereof and accordingly, are subject to change after such date. Readers should not place undue importance on forward-looking statements and should not rely upon these statements as of any other date. The Company does not undertake to update any forward-looking information, except as, and to the extent required by applicable laws. The forward-looking statements contained herein are expressly qualified by this cautionary statement.

A glossary of terms is affixed to the last page of this MD&A.

## 2. Overview

Almonty is a publicly traded company listed on the TSX Venture Exchange (the “TSX-V”) under the symbol “AII”. The principal business of Almonty is the production of tungsten concentrate and the advancement of exploration and development activities at the Los Santos Project. The Los Santos Project is a tungsten mine located approximately 50 kilometres from Salamanca, in western Spain. The mine has been in production since 2008 and produces tungsten concentrate products. The mine was opened in June 2008 and commissioned in July 2010 by its former owner.

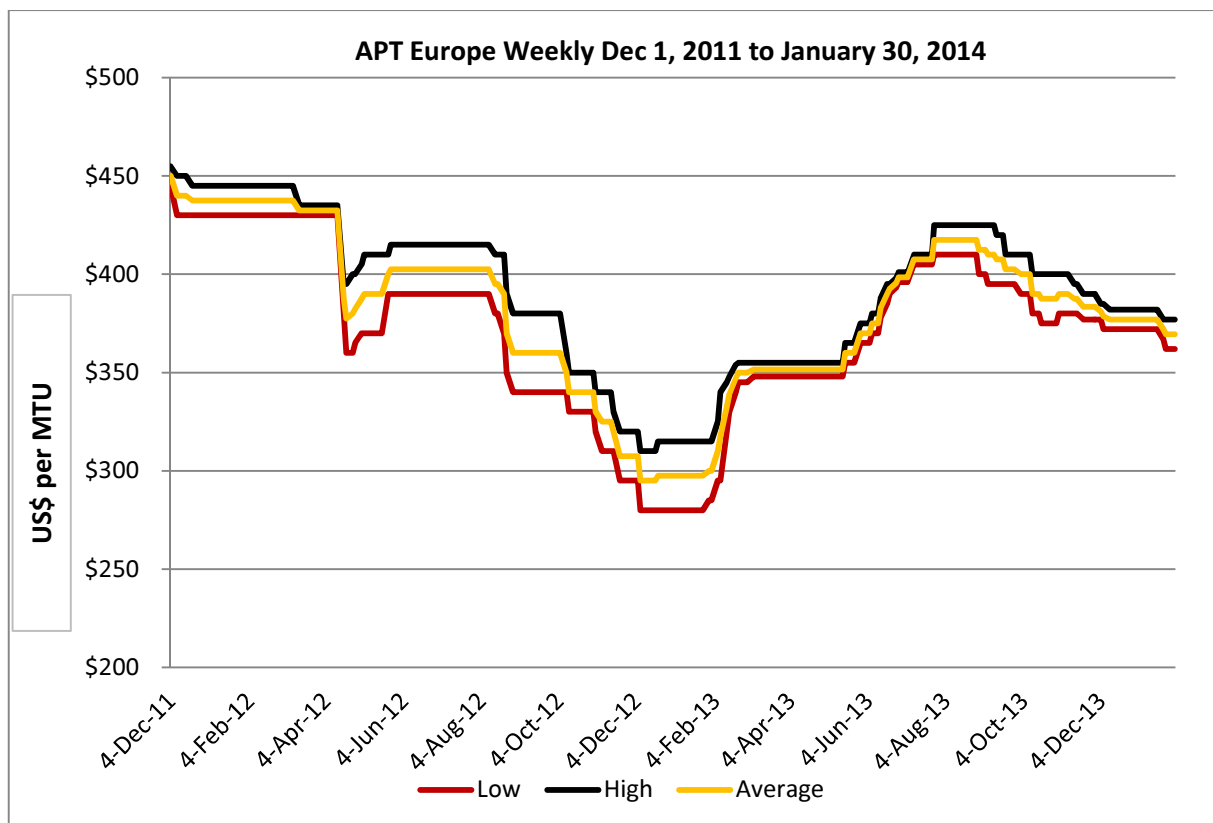
Market demand for tungsten concentrate continued to be stable during the first quarter of fiscal 2014 with an average price during the three month period ended December 31, 2013 of US\$386/MTU of APT. Market prices for APT decreased during the quarter with prices falling from an average of US\$410/MTU for the three months ended September 30, 2013 and has continued down to US\$375 /MTU in January 2014. Management believes that the demand for tungsten concentrate has stabilized and that prices are expected to remain at current levels during Q2 2014. Longer-term we expect the recovery in global economic output and global demand will continue to have a positive impact on the price of APT and that continued forecasted demand increases will lead to supply shortages for tungsten concentrates and sustained higher prices.

Tungsten prices according to the MB European quotation for APT (from which Almonty’s concentrate prices are derived by varying formulae under its long-term supply agreement) averaged US\$386/MTU during the first quarter of fiscal 2014. Pricing improved by 19.1% over the US\$323/MTU average of the three month ended December 31, 2012. Although the price is still down from the highs of US\$440/MTU experienced in the fall of 2011, all signs point to a sustained recovery in the price of APT. The average quoted price for European APT for the twelve months ended September 30, 2012 was US\$412/MTU; the average price for the three month period ended December 31, 2012 was US\$323/MTU; the average price

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for the three months ended March 31, 2013 was US\$325/MTU; the average for the three months ended June 30, 2013 was US\$364/MTU; the average price for the three months ended September 30, 2013 was US\$410/MTU; and, the average price for the year ended September 30, 2013 was US\$357/MTU. Almonty prices its tungsten concentrate product in relation to the prior month's average quoted price for APT on the MB European quotation service. The price Almonty received for its tungsten concentrate during the three months ended December 31, 2013 was negatively impacted by the decrease in the MB European quoted price and resulted in a lower average price for its tungsten concentrate in the three months ended December 31, 2013 when compared to the three month period ended September 30, 2013.

The Company anticipates that prices will continue to remain at current levels in the near-term and not return to the lows experienced in January and February 2013. We remain cautious as to the timing of a return to the historical high prices experienced in the first half of fiscal 2012. The Company continues to take the necessary steps to reduce operating costs and enhance its efficiency in order to ensure that the Company remains profitable should the price for APT return to levels experienced during January and February 2013.



Source: Metal Bulletin, ammonium para tungstate (APT), European (US\$/MTU).

Almonty has implemented significant operational changes and enhancements to the milling circuit at the Los Santos Project since its acquisition on September 23, 2011. The changes implemented yielded expected results and improvement in tungsten recoveries up to February 2013 and met our minimum targeted

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tungsten recovery rate of 65% from all types of ore found at the Los Santos Project. In March 2013, Almonty re-calibrated its lab equipment according to the results it received from assay work carried out by two large, global independent third party laboratories. In December 2013, Almonty determined that the recalibration was faulty. The faulty calibration was discovered by Almonty after an extensive review of all assay work carried out by the Company and the external assay laboratories from March 2013 up to the end of December 2013. The Company and the third party assay laboratories determined that the error occurred as a result of faulty assay work produced by the external laboratories. This error affected the Company's assay work carried out on the feed grade to the plant, as well as the tailings grade exiting the plant, leading to a miscalculation of the Company's tungsten recovery rate for the period. No other assay results were affected (blast assays, exploration assays etc. were unaffected). The Company has rectified the problem and has recalibrated its internal laboratory after consultation with five additional third party assay laboratories that were employed by Almonty in its extensive review of the assay work.

The Company has begun to re-tune its mineral processing circuit based on the now corrected tungsten feed grades and anticipates it will return to its previously achieved base-line targeted tungsten recovery rate of 65% (achieved in the months of December 2012, January 2013 and February 2013 prior to the faulty calibration of its internal laboratory). The Company does not anticipate that there will be any material change to its plant configuration and that all previously installed upgrades to its processing circuit can be fine-tuned and fully utilized as originally planned.

There was no financial impact to this recalibration as it did not impact the assay results of final tungsten concentrate produced, thereby having no impact on the calculation of WO<sub>3</sub> grades contained in the final concentrate that was sold by Almonty during the affected periods.

On January 31, 2014, Almonty re-stated its previously calculated tungsten recovery rates as follows:

Summary tungsten recovery information:

	Three Months Ended September 30, 2013	Three Months Ended June 30, 2013	Three Months Ended March 31, 2013	Three Months Ended December 31, 2012	Year Ended September 30, 2013
Original Average WO <sub>3</sub> recovery rate	62.5%	57.0%	63.6%	63.2%	62.0%
Restated Average WO <sub>3</sub> recovery rate	51.2%	46.0%	59.6%	63.2%	55.2%

The average tungsten recovery rate for the three months ended December 31, 2013 was 50.5%. The tungsten recovery rate during the three months ended December 31, 2013 was in-line with the restated tungsten recovery rate for the three months ended September 30, 2013 of when compared to the 51.2% as

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the Company was still operating the milling circuit based on faulty calibration of its laboratory. The tungsten recovery rate improved during the month of January 2014 to 57.0%% as the Company began its re-tuning process. Once the re-tuning is complete, Almonty anticipates it will return to tungsten recovery rates in excess of 60% in the near-term and is targeting a return to a 65% recovery rate by Q4 2014.

Almonty also was able to complete its connection to the Spanish electricity grid during the first week of October 2013. The connection has already started to deliver material cost savings when compared to the cost of diesel generated power that was previously in place. Annual savings from the connection are estimated to be in excess of €750 per annum based on the terms of a supply contract the Company has entered into with Iberdrola SA, the operator of the Spanish state electricity grid.

Management has also identified several opportunities to expand the Los Santos Project's potential and is continuing its exploration campaign at the Los Santos Project. The 2012 exploration campaign was completed in June 2012 with 5,078 metres being drilled and resulted in an updated technical report being completed as at September 30, 2012 prepared pursuant to National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* (“**NI 43-101**”) (the technical report is filed on SEDAR under the Company's profile and also available on the Company's website). As a result of the exploration program, Tungsten reserves increased by 10%, contained tungsten increased by 20%, and the mine life was extended to 8 years.

The 2013 exploration campaign was completed in June 2013 with over 6,955 metres drilled. The campaign was focused on furthering our understanding of the resource at the Los Santos Project. The 2013 campaign resulted in an updated technical report being completed as at October 31, 2013 prepared pursuant to National Instrument 43-101 – *Standards of Disclosure for Mineral Projects* (“**NI 43-101**”) (the technical report is filed on SEDAR under the Company's profile and also available on the Company's website). As a result of the exploration program, tungsten reserves increased by an additional 6.30%, contained tungsten by an additional 5.75% and the mine life was further extended by 1 year, to 9 years. The campaign was able to replace all of the mineral reserves that were consumed during the year (July 1, 2013 to June 30, 2013). More importantly we now have sufficient understanding of the resource to fully optimize the pit design and long-term mine plan. The campaign has also identified areas of further interest and the Company intends to carry out additional exploration activity in 2014 that will target the underground potential of the Los Santos Project. Almonty will provide updates on this and other initiatives as they progress.

Pit optimization work is continuing on schedule and the pit design is being enhanced based on the results of the recently filed NI 43-101 technical report. Average grades of ore mined during the period of time of the pit optimization are improving and are beginning to approach the anticipated long-term grade of the resource. The improvement in the grade being mined, coupled with the optimization of the processing plant, is expected to enhance tungsten production levels in future periods. During the three months ended December 31, 2013 the Company experienced a modest increase in waste rock removal costs compared to the three months ended September 30, 2013 as it prepared in advance for the change-over in mining contractors in January 2014. The targeted strip ratio for 2014 is anticipated to be approximately 30% lower than it was for the 12 months ended September 30, 2013. During the three months ended December 31, 2013 the average grade of ore mined was 0.37% and continues to move toward the long-term average grade of the mineral reserves, currently estimated to be 0.39%.

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On March 21, 2013, the Company announced that it had entered into an option agreement to acquire a 51% interest in, and be the project operator of, the Valtreixal Sn-WO<sub>3</sub> project in North Western Spain (approximately 250km from its Los Santos tungsten project) for total consideration of €1,400. Almonty made the first installment payment of €100 in June 2013. The balance of funds are due over the remaining 24 months of the option period should Almonty decide to continue with the project. Almonty also has the option to acquire the remaining 49% interest in the project for an additional €2,000 at the end of the 24 month period. Almonty has begun its evaluation of the historical data and has carried out test drilling on the site in order to facilitate the planning of additional exploration work on the property. Almonty anticipates development work on the project to be carried out over the course of the first 18 months of the option period. The Company has embarked on a review of the historical data and exploration work that was carried out on the Valtreixal Project with a view to developing a comprehensive exploration program. We will update the market as we progress with our evaluation of the project.

On December 19, 2013, Almonty served notice to Sanchez y Lago, the former mining contractor at the Los Santos Project, that it was terminating its agreement effective January 15, 2014. Almonty has entered into a new contract with MOVITEX (Movimientos de Tierras Y Excavaciones, S.L.U.) for contract mining services at Los Santos effective January 15, 2014. Almonty owed Sanchez y Lago €40 for the demobilization of its equipment and up to €35 for a maintenance workshop owned by Sanchez y Lago that is located at the Los Santos mine site (total payment of up to €75 estimated to be \$109 based on the CAD/Euro exchange rate as of the date notice was given) as a termination fee under its existing contract. This amount became payable in January 2014. MOVITEX began providing contract mining services at the Los Santos on schedule and Almonty estimates that the cost of such services will be significantly less than it was paying to Sanchez y Lago for similar services. The equipment being employed by MOVITEX is smaller and better suited to both the size and types of open pits being mined at the Los Santos Project and Almonty anticipates that it will have a favourable impact on dilution.

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Summary operating information for the Company's Los Santos Project:

	Three Months Ended December 31, 2013	Three Months Ended December 31, 2012	Three Months Ended September 30, 2013	Year Ended September 30, 2013	Year Ended September 30, 2012
Ore treated (tonnes)	129,215	116,151	117,821	456,895	476,591
WO <sub>3</sub> concentrate produced (MTU)	17,160	19,359	15,717	67,435	65,848
WO <sub>3</sub> concentrate sold (MTU)	16,900	19,260	14,688	66,807	66,419
Sales revenue (US\$ million)	5.3	5.0	4.6	17.8	21.5
Cash operating costs (US\$/MTU)	154	146	172	177	183
Cash operating costs (€/MTU)	113	114	130	135	141
Ore mined (tonnes)	139,312	127,928	155,887	556,861	462,221
Average grade WO <sub>3</sub> mined	0.37%	0.37%	0.31%	0.33%	0.28%
Average WO <sub>3</sub> recovery rate	50.5%	63.3%	51.2%	55.2%	57.8%

MTU production during the three months ended December 31, 2013 was negatively impacted by the continued reliance on the faulty laboratory calibration during the period. The faulty calibration was not discovered until late December 2013 and led to a lower tungsten recovery rate for the three months ended December 31, 2013 when compared to the three months ended December 31, 2012 and the three months ended September 30, 2013. As a result of the faulty calibration, the Company is currently in the process of re-evaluating its tailings stockpile that was produced since March 2013 as it contains significantly higher grades of tungsten than previously thought, leading to an increase in the anticipated production of MTUs of WO<sub>3</sub> when the tailings are ultimately reprocessed.





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### 3. Financial Highlights

The following financial information is for the periods from October 1, 2013 to December 31, 2013, and from October 1, 2012 to December 31, 2012 and from July 1, 2013 to September 30, 2013.

	<b>Three Months Ended December 31, 2013 \$'000</b>	<b>Three Months Ended December 31, 2012 \$'000</b>	<b>Three Months Ended September 30, 2013 \$'000</b>
Gross Revenue	5,463	5,032	4,730
Cost of sales	2,496	2,520	3,282
<b>Gross profit</b>	<b>2,967</b>	<b>2,512</b>	<b>1,448</b>
General and administrative costs	803	820	928
Other expense (income)	(93)	32	(61)
Non-cash compensation costs (options issued to directors, officers and key management)	56	15	14
<b>Earnings (loss) before the undernoted items</b>	<b>2,201</b>	<b>1,645</b>	<b>567</b>
Depreciation and amortization	1,065	1,399	2,412
Interest expense	90	17	97
Insurance (gain) loss	-	-	(928)
Deferred income tax expense (recovery)	-	-	-
<b>Net income (loss) for the period</b>	<b>1,042</b>	<b>229</b>	<b>(1,014)</b>
Income (loss) per share basic	\$0.03	\$0.01	(\$0.03)
Income (loss) per share diluted	\$0.03	\$0.01	(\$0.03)
Dividends	-	-	-
Cash flows provided by (used in) operating activities	2,605	1,712	2,242
Cash flows provided by (used in) investing activities	(2,859)	(2,512)	(3,552)
Cash flows provided by (used in) financing activities	(588)	(15)	(551)
	<b><u>December 31, 2013</u></b>	<b><u>December 31, 2012</u></b>	<b><u>September 30, 2013</u></b>
Cash	297	252	1,083
Restricted cash	249	-	237
Total assets	39,219	30,253	36,676
Long-term trade payables	650	584	617
Long-term debt	5,679	-	5,946
Capital lease obligations	103	138	108
Shareholders' equity	24,417	22,716	21,857
<b>Other</b>			
Outstanding shares ('000)	37,029	37,044	37,044
Weighted average outstanding shares ('000)			
Basic	37,036	37,044	37,044
Fully diluted (treasury method)	37,044	37,069	37,044
Closing share price	\$0.91	\$1.07	\$0.93

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**Three Month Period Ended December 31, 2013**

During the three months ended December 31, 2013, Almonty mined 139,312 tonnes of ore at a weighted average grade of 0.37% WO<sub>3</sub> (127,928 tonnes of ore at a weighted average grade of 0.37% for the three months ended December 31, 2012) and the Company processed 129,215 tonnes of ore at a weighted average grade of 0.25% WO<sub>3</sub> for a total contained MTU WO<sub>3</sub> processed of 39,915 (116,151 tonnes of ore at a weighted average grade of 0.26% WO<sub>3</sub> for a total contained MTU WO<sub>3</sub> processed of 30,583 for the three months ended December 31, 2012). Tungsten concentrate recovery averaged 50.5% and 63.3% for the three month periods ended December 31, 2013 and 2012 respectively. Almonty shipped 16,900 MTU of high grade concentrate (65.0% or higher WO<sub>3</sub>) and nil MTU of low grade concentrate (between 45.0% and 65.0% WO<sub>3</sub>) for the three month period ended December 31, 2013 compared to 17,360 MTU of high grade concentrate (65.0% or higher WO<sub>3</sub>) and 1,900 MTU of low grade concentrate (between 45.0% and 65.0% WO<sub>3</sub>) for the three month period ended December 31, 2012.

Gross revenue for the three month period totalled \$5,463 (\$5,032 for the three month period ended December 31, 2012). The average APT price for the three months ended December 31, 2013 was US\$386/MTU compared to an average of US\$323/MTU for the three months ended December 31, 2012.

Direct selling expenses, consisting of freight, insurance, factoring costs and other transportation services required to deliver product, totalled \$59 for the three month period ended December 31, 2013 (\$45 for the three month period ended December 31, 2012).

Direct mining costs totalled \$668 and direct processing costs totalled \$1,769 for the three month period ended December 31, 2013. For the three month period ended December 31, 2012, direct mining costs totalled \$365 and direct processing costs totalled \$2,110. Gross profit for the three month period ended December 31, 2013 was \$2,967 (\$2,512 for the three month period ended December 31, 2012).

General and administrative costs for the three month period ended December 31, 2013 totalled \$859 and included non-cash compensation costs of \$56 relating to the recognition of the vesting of options granted to an employee during the period. For the three month period ended December 31, 2012, general and administration costs were \$835 and included non-cash compensation expense of \$15 relating to the vesting of a portion of the options previously granted to the Chief Financial Officer. Other costs included in general and administrative costs include employee salaries and employment related expenses of all non-mining/processing personnel as well as corporate overhead costs, business development and corporate development costs, listing and transfer agent fees, accounting, legal and other professional fees and travel. The increase in costs of \$24 was a result of a increase in non-cash compensation expense of \$41 offset by an decrease in other administrative costs of \$17 during the three months ended December 31, 2013 when compared to the three months ended December 31, 2012. The Company has taken additional steps to reduce its general and administrative costs at the Los Santos Project by reducing its administrative work force. The benefits of these reductions are expected to be realized in future periods.

Other expense (income) was (\$93) for the three month period ended December 31, 2013 compared to an expense of \$32 for the three month period ended December 31, 2012. This consisted of (i) foreign exchange (gains) losses on the translation of United States dollar revenue into Euros and the revaluation of non-interest bearing trade payables valued in United States dollars totalling \$64 for the three month period ended December 31, 2013 compared to \$32 for the three month period ended December 31, 2012, and (ii) other (income) loss for the three month period ended December 31, 2013 of (\$157) compared to other (income)

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expenses of (\$3) for the three month period ended December 31, 2012. Upon completion of its connection to the Spanish electricity grid in October 2013, the Company was able to salvage and sell redundant equipment during the three months ended December 31, 2013 that resulted in it recording other (income) expense of (\$157) during the period (\$nil for the three months ended December 31, 2012).

Depreciation and amortization expense for the three month period ended December 31, 2013 totalled \$1,065 comprised of depreciation and amortization of mining operations based on historical costs utilizing a unit of production (“UOP”) methodology. Total depreciation and amortization for the three month period ended December 31, 2012 was \$1,366 comprised of depreciation and amortization of mining operations based on historical costs utilizing a UOP methodology. The decrease was due in part to the lower production of MTU’s of WO<sub>3</sub> during the period offset by a small increase in the tonnes of ore mined during the three months ended December 31, 2013 when compared to the three months ended December 31, 2012.

Overall income for the three month period ended December 31, 2013 was \$1,042 or \$0.03 per common share. For the three month period ended December 31, 2012 overall income was \$229 or \$0.01 per common share.

Cash provided by operating activities totalled \$2,605 and \$1,712 for the three month periods ended December 31, 2013 and 2012, respectively.

Cash used in investing activities totalled \$2,859 for the three month period (\$2,512 for the three month period ended December 31, 2012) and is related to exploration activities of \$36 (\$51 for the three month period ended December 31, 2012), additions to plant and equipment of \$74 (\$191 for the three month period ended December 31, 2012), and pit optimization and waste rock movement of \$2,749 (\$2,270 for the three month period ended December 31, 2012). Pit development costs are capitalized and then amortized based on the UOP method as the current strip ratio is greater than the average strip ratio over the life of the Los Santos Project.

Cash provided by (used in) financing activities totalled (\$588) for the three month period ended December 31, 2013 and consisted of the repayment of long-term debt of (\$566), capital lease payments of (\$10) and the repurchase of common shares under the Company’s Normal Course Issuer Bid of (\$12). Cash provided by (used in) financing activities for the three month period ended December 31, 2012 was (\$15) consisting of capital lease payments of (\$15).

**Three Months Ended December 31, 2013 (Q1 2014) Compared to the Three Months Ended September 30, 2013 (Q4 2013)**

Revenues increased by \$733 in Q1 2014 compared to Q4 2013. Sales volumes were up by 2,212MTU in Q1 compared to Q4 as the result of a return to normal operations in Q1 after the forced shutdown from the fire at the end of Q3/beginning of Q4 2013. The price received per MTU of WO<sub>3</sub> decreased by an average of \$24 per MTU compared to the price received per MTU of WO<sub>3</sub> in Q4 2013. Almonty completed its plant optimization program at the end of Q4 2013 and restarted operations after the fire shutdown. The Company also completed its connection to the state electrical grid during the first week of October 2013. The Company anticipates that MTU production will improve significantly in future periods when compared to the 3 months ended December 31, 2013 as plant through-put increases as a result of the retuning of the milling circuit and expected improvement in the tungsten recovery rate now that the Company’s internal

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laboratory has been properly calibrated, allowing it to accurately measure the effects the re-tuning efforts have on the tungsten recovery rate.

Excluding the impact of the gain from insurance of \$928 in Q4 2013, Net Income increased by \$2,983 in Q1 2014 when compared to Q4 2013. This was due to a decrease in depreciation and amortization expense of \$1,347, a decrease of \$82 in SG&A costs and higher gross mining profit of \$1,519 when compared to Q4 2013.

During the three months ended December 31, 2013 the value of the Euro relative to the Canadian dollar increased from €1.00 = CAD\$1.3920 as at September 30, 2013 to €1.00 = CAD\$1.4655 as at December 31, 2013 resulting in the Company recording a cumulative translation adjustment and other comprehensive income of \$1,474 for the three months ended December 31, 2013. This compares to an increase in the value of the Euro relative to the Canadian dollar for the three month period ended September 30, 2013 that resulted in the recording of other comprehensive income of \$523 for Q4 2013. These amounts are non-cash and represent the fluctuation in the value of the Company's ownership of Daytal and the Los Santos Project as a result of the fluctuation in the value of the Canadian dollar versus the Euro.

During the three month period ended December 31, 2013, cash flow used in investing activities of \$2,859 (\$3,552 for the three month period ended September 30, 2013) represented a decrease of \$16 in capital spent on the Company's drilling exploration program, an increase of \$213 spent on pit optimization and a \$890 decrease in the amount spent on equipment as compared to the three month period ended September 30, 2013.

Net operating cash flow before working capital for the three months ended December 31, 2013 was \$2,605, representing an increase of \$363 as compared to the three months ended September 30, 2013. This increase was a direct result of higher sales volume of tungsten concentrate during Q1 2014 when compared to Q4 2013. Changes in non-cash working capital of \$450 during the three months ended December 31, 2013 was down \$189 over the three months ended September 30, 2013.

Cash flow (used in) provided by financing activities during the three month period ended December 31, 2013 totalled (\$588) and comprised (\$10) in payments under capital leases and repayment of long-term debt of (\$556) and the repurchase of common shares under the Company's Normal Course Issuer Bid of (\$12) compared to capital lease payments of (\$10), repayment of long-term debt of (\$541) and \$nil in the repurchase of common shares during the three months ended September 30, 2013.

### **Liquidity and Capital Resources**

As of December 31, 2013 the Company had sufficient cash resources and liquidity to meet its current obligations and to fund working capital requirements and planned capital expenditures in fiscal 2014 (see Section 8, "Objectives and Outlook", in this MD&A for planned drilling and exploration activities and expenditures on both pit optimization and tungsten recovery enhancement projects). The Company had cash and receivables of \$2,339 and net non-cash working capital of (\$1,671) as at December 31, 2013. As of the date of this MD&A, the Company has received payment for all invoices related to the sale of tungsten concentrate that were outstanding as at December 31, 2013 and has delivered all the tungsten concentrate associated with the \$828 in deferred revenue recorded in current liabilities as at December 31, 2013. The Company believes that, based on the current price of APT and its forecast production schedule for fiscal 2014, it has the ability to generate sufficient cash flow to meet both its current and long-term obligations.

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Should the price of APT fall below a level sufficient to cover the Company's cash operating costs or should the Company no longer be able to produce tungsten concentrate in sufficient quantity, then the Company may not be able to meet its current and long-term obligations. Outside of abiding by Spanish law requirements on minimum capital adequacy at Daytal, there is no legal restriction on Almonty's ability to repatriate capital from Daytal.

The primary objective of Almonty's capital management is to ensure that it maintains a strong credit rating and healthy capital ratios in order to support its business and maximize shareholder value. Almonty manages its capital structure and makes adjustments to it in light of changes in economic conditions. Almonty may make a dividend payment to shareholders, return capital to shareholders or issue new shares in order to meet its capital management objectives in future periods. Almonty monitors capital using a gearing ratio, which is net debt divided by equity plus net debt. Almonty's policy is to maintain the gearing ratio between 5% and 40%, which is consistent with industry standards. Almonty includes within net debt, interest-bearing loans and borrowings, trade and other payables, less cash and short term deposits and receivables from government tax authorities. Almonty is not exposed to any externally imposed capital requirements.

The Company's wholly-owned subsidiary had \$5,679 in fully amortizing long-term debt comprised of 4 individual facilities with individual Spanish domiciled banks as at December 31, 2013 (\$5,946 as at September 30, 2013). The facilities all mature in April 2016 and carry interest rates ranging from 4.87%-6.53%. The total combined monthly payment of principle and interest is €140. One facility totalling €1,611 (CAD\$2,361) carries a guarantee by Almonty and is partially secured by the assets of Daytal, the Company's wholly owned subsidiary, while the other three facilities are non-recourse. See note 17 of the Company's unaudited consolidated interim financial statements for the three months ended December 31, 2013 for additional details.

There were capital lease obligations relating to vehicles totalling \$103 that bears annual interest rates of 8.50% as at December 31, 2013 (\$108 as at September 30, 2013).

Long-term non-interest bearing trade payables of \$650 (all classified as current) relates to a non-interest bearing trade payable that matures in November 2013 and required Almonty to make an initial payment of \$17 in September 2012 followed by monthly instalments of \$43 beginning in October 2012. As of the date of this report Almonty has not yet made a payment against this non-interest bearing trade payable.



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	Dec 31, 2013 \$'000	Sept 30, 2013 \$'000	Sept 30, 2012 \$'000
Capital leases	103	108	148
Long-term debt	5,679	5,946	-
Accounts payable and accrued liabilities	7,799	7,614	5,182
Long-term non-interest bearing trade payables	650	617	556
Less cash, short-term deposits and receivables	(2,339)	(3,424)	(2,559)
Net debt	11,892	10,861	3,327
Shareholders' equity	24,417	21,859	21,649
Equity and net debt	36,309	32,720	24,997
<b>Gearing ratio</b>	<b>32.8%</b>	<b>33.2%</b>	<b>13.3%</b>

The Company's approach to capital management did not change during the three month period and year ended December 31, 2013.

**Outstanding Share Data**

As of the date hereof, there were 37,022,389 common shares outstanding, 1,900,000 options and 3,701,144 warrants outstanding to acquire one common share each.

The Company has established a stock option plan for its directors, officers, employees and technical consultants under which the Company may grant options to acquire a maximum number of common shares equal to 10% of the total issued and outstanding common shares of the Company. As of the date hereof there were 1,900,000 options outstanding under the option plan. The option plan was approved by the Company's shareholders at the Company's Annual and Special Meeting of Shareholders held on March 26, 2013.



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#### 4. Quarterly Earnings and Cash Flow

	<b>1<sup>st</sup> Quarter (2014)</b>
<b>Period Ended</b>	<b>December 31, 2013 \$'000</b>
Total Revenue	\$5,463
Net income (loss)	1,042
Basic earnings (loss) per share	\$0.03
Diluted earnings (loss) per share	\$0.03
Total assets	39,219
Total long-term debt	5,679
Dividend	-

	<b>4<sup>th</sup> Quarter (2013)</b>	<b>3<sup>rd</sup> Quarter (2013)</b>	<b>2<sup>nd</sup> Quarter (2013)</b>	<b>1<sup>st</sup> Quarter (2013)</b>
<b>Period Ended</b>	<b>September 30, 2013 \$'000</b>	<b>June 30, 2013 \$'000</b>	<b>March 31, 2013 \$'000</b>	<b>December 31, 2012 \$'000</b>
Total Revenue	4,730	3,574	5,005	5,032
Net income (loss)	(1,014)	(1,656)	201	230
Basic earnings (loss) per share	(\$0.03)	(\$0.04)	\$0.01	\$0.01
Diluted earnings (loss) per share	(\$0.03)	(\$0.04)	\$0.01	\$0.01
Total assets	36,676	35,957	30,361	30,253
Total long-term debt	5,946	6,379	-	-
Dividend	-	-	-	-

	<b>4<sup>th</sup> Quarter (2012)</b>	<b>3<sup>rd</sup> Quarter (2012)</b>	<b>2<sup>nd</sup> Quarter (2012)</b>	<b>1<sup>st</sup> Quarter (2012)</b>
<b>Period Ended</b>	<b>September 30, 2012 \$'000</b>	<b>June 30, 2012 \$'000</b>	<b>March 31, 2012 \$'000</b>	<b>December 31, 2011 \$'000</b>
Total Revenue	5,394	4,802	4,964	6,485
Net income (loss)	1,025	263	380	746
Basic earnings (loss) per share	\$0.03	\$0.01	\$0.01	\$0.02
Diluted earnings (loss) per share	\$0.03	\$0.01	\$0.01	\$0.02
Total assets	27,966	31,211	31,424	30,684
Total long-term debt	-	-	-	-
Dividend	-	-	-	-

See Section 3 “Financial Highlights”, for details on the three month period and year ended December 31, 2013 and a comparison to the three month period and year ended December 31, 2012.

## 5. Critical Accounting Estimates

The preparation of Almonty’s consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management’s experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. In particular, information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is described in more detail in Note 3 of the unaudited consolidated interim financial statements of Almonty as at December 31, 2013 and December 31, 2012.

## 6. New Accounting Standards and Interpretations

### New Accounting Standards and Interpretations Not Yet Adopted

The following standards, amendments to standards and interpretations have been identified as those which may impact the consolidated financial statements of Almonty. They have been issued but are not yet effective and are available for early adoption; however, they have not been applied in preparing the Company’s consolidated financial statements.

Reference	Title	Application date for Almonty
IFRIC 21	Levies	January 1, 2014
IFRS 9	Financial Instruments	To Be Determined

### IFRIC 21 Levies

IFRIC 21 Levies is an interpretation of IAS 37 *Provisions, Contingent Liabilities and Contingent Assets*. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event (known as an obligating event). The Interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy.

### IFRS 9 Financial Instruments: Classification and Measurement

IFRS 9, as issued, reflects the first phase of the IASB’s work on the replacement of IAS 39 and applies to classification and measurement of financial assets and financial liabilities as defined in IAS 39. The standard was initially effective for annual periods beginning on or after January 1, 2013, but Amendments to IFRS 9 Mandatory Effective Date of IFRS 9 and Transition Disclosures, issued in November 2013, removed the mandatory effective date from IFRS 9. The IASB stated that a new effective date will be decided upon when the entire IFRS 9 project is closer to completion. Entities may still chose to apply IFRS 9 immediately.



The adoption of these new or amended standards is not expected to have a material impact on the consolidated financial statements of Almonty. A brief description of the above standards and interpretations can be found in the Company’s unaudited consolidated interim financial statements for the three months ended December 31, 2013.

## 7. Related Party Transactions

There were no related party transactions that occurred during the three month period ended December 31, 2013.

### Compensation of key management personnel of Almonty during the three month period ended December 31

	<u>2013</u>	<u>2012</u>
Short-term cash compensation	95	95
Long-term Directors’ incentive share-based compensation	-	15
<b>Total compensation of key management personnel</b>	<b><u>95</u></b>	<b><u>110</u></b>

## 8. Objectives and Outlook

### Targeted Improvements in the Company’s Tungsten Recovery Rates

Almonty has implemented significant operational changes and enhancements to the milling circuit at the Los Santos Project since its acquisition on September 23, 2011. The changes implemented yielded expected results and an improvement in tungsten recoveries up to February 2013 and met our minimum targeted tungsten recovery rate of 65% from all types of ore found at the Los Santos Project.

In March 2013 Almonty re-calibrated its lab equipment according to the results it received from assay work carried out by two large, global independent third party laboratories. In December 2013 Almonty determined that the recalibration was faulty. The faulty calibration was discovered by Almonty after an extensive review of all assay work carried out by the Company and the external assay laboratories from March 2013 up to the end of December 2013. It was determined that the error occurred as a result of faulty assay work produced by the external laboratories, causing Almonty to use faulty results to recalibrate its internal laboratory in March 2013. This error affected the Company’s assay work carried out on the feed grade to the plant as well as the tailings grade exiting the plant, leading to a miscalculation of the Company’s tungsten recovery rate for the period. No other assay results were affected (blast assays, exploration assays etc. were unaffected). The Company has rectified the problem and has recalibrated its internal laboratory after consultation with five additional third party assay laboratories.

The Company has begun to retune its mineral processing circuit based on the now corrected tungsten feed grades and anticipates it will return to its previously achieved base-line targeted tungsten recovery rate of 65% (achieved in the months of December 2012, January 2013 and February 2013 prior to the faulty calibration of its internal laboratory). The Company does not anticipate that there will be any material change to its plant configuration and that all previously installed upgrades to its processing circuit can be fine-tuned and fully utilized as originally planned.

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There was no financial impact to this recalibration as it did not affect the assay results of final tungsten concentrate produced, thereby having no impact on the calculation of WO<sub>3</sub> grades contained in the final concentrate that was sold by Almonty during the affected periods.

Management believes that the recovery rate will continue to improve as additional fine-tuning of the processing circuit is completed over the balance of fiscal 2014. The solutions implemented by the Company should enable the tungsten recovery rate to return to the targeted minimum of 65% in future periods across all types of ore that may be encountered at the Los Santos Project.

#### **Connection to the Spanish Electricity Grid**

Almonty completed its connection to the Spanish electricity grid during the first week of October 2013. The connection has already started to deliver material cost savings when compared to the previous method of generating electricity using diesel generators.

#### **Accelerate the Development and Exploration of the Mine in order to extend the Mine Life**

On October 1, 2011, Almonty embarked on a drilling program at the Los Santos Project, the aim of which was to convert inferred resources into measured and indicated reserves and to further delineate the nature of the resource at the Los Santos Project. The exploration program is ongoing and the Company has plans to drill 7,000 metres per year over the next three years as part of the campaign. The Company completed its drill campaign for fiscal 2012 in May after drilling 5,078 metres and issued a revised NI 43-101 technical report dated September 30, 2012. As a result of the exploration program Tungsten reserves increased by 10%, contained tungsten increased by 20% and the mine life was extended to 8 years. The total amount budgeted for the fiscal 2012 drill campaign was set at US\$1,800. The Company completed the fiscal 2012 drill campaign after spending US\$1,060.

Continuation of the development and exploration program recommenced in November 2012 and the 2013 exploration campaign was completed in June 2013 with over 6,955 metres drilled. The Company issued a revised NI 43-101 technical report dated October 31, 2013. As a result of the exploration program tungsten reserves were increased by 6.3% and contained tungsten by 5.75% and extended the mine life to 9 years. Our understanding of the measured and indicated resource has provided the company with sufficient forward planning visibility to fully optimize the pit and long-term mine plan for the Los Santos Project. The 2014 exploration campaign is expected to commence in calendar 2014 and will target the underground potential of the Los Santos Project.

#### **Focus on Cost Control and Reducing the Cost per MTU of the Final Products**

Almonty continues to focus on reducing its overall cash costs per MTU produced in order to remain competitive and to enable the Company to continue being profitable should the price that the Company is paid for its tungsten concentrate fall as a result of deterioration in the MB quoted price for APT.

#### **Valtreixal Project**

On March 21, 2013, the Company announced that it had entered into an option agreement to acquire a 51% interest in, and be the project operator of, the Valtreixal Sn-WO<sub>3</sub> project in North Western Spain (approximately 250km from its Los Santos tungsten project) for total consideration of €1,400. Almonty made an initial payment of €100 in June 2013 with the balance of funds due over the remaining 24 months should Almonty decide to continue with the project. Almonty also has the option to acquire the remaining

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49% interest in the project for an additional €2,000 at the end of the 24 month period. Almonty has begun its evaluation of the historical data and has carried out test drilling and is in the process of planning additional exploration work on the property that is expected to be carried out over the course of the first 18 months of the option period.

### **Summary of the Company's Long-Term Supply Agreement**

Almonty, along with its wholly-owned subsidiary Daytal, is a party to a long-term supply agreement, dated September 23, 2011, with a customer who participates in the global tungsten business. The agreement provides for the supply of a minimum amount of tungsten concentrate to the customer in accordance with certain specifications of the customer. Pricing is based on a formula derived from the prior month's average of the high and low price for European APT per MTU as quoted on the MB. The supply agreement runs for a term of five years with an automatic renewal for an additional five years (unless either party provides at least three months' notice of its intention not to renew). The customer was also granted a right of first refusal for any tungsten concentrate (that meets the customer's specifications) produced by Almonty which exceeds the minimum amount required to be shipped under the terms of the agreement. Should Almonty produce tungsten concentrate in excess of the minimum required under the Agreement, the customer has been granted a right of first refusal to purchase it. A copy of the agreement is available on SEDAR under Almonty's profile.

### **Normal Course Issuer Bid**

On December 20, 2013, Almonty commenced a Normal Course Issuer Bid (the "**Bid**") in accordance with the rules of the TSXV. The Company intends to purchase, from time to time, as it considers advisable, up to 901,627 common shares (which is equal to 2.4% of the outstanding common shares) on the open market through the facilities of the TSXV. The price that Almonty will pay for any common share under the Bid will be the prevailing market price on the TSXV at the time of such purchase. Common shares acquired under the Bid will be subsequently cancelled. Almonty currently has 37,022,389 common shares outstanding after repurchasing and cancelling 22,000 shares under the Bid up to the date of this MD&A. The Company has appointed Jennings Capital Inc. to conduct the Bid on its behalf.

The Bid will terminate on December 19, 2014 or such earlier time as the Bid is completed or terminated at the option of Almonty. A copy of the Form 5G – Notice of Intention to make a Normal Course Issuer Bid filed by the Company with the TSXV can be obtained from the Company upon request without charge.

### **Memorandum of Understanding for Financing and Off-take Commitment**

On December 11, 2013, Almonty announced that it has entered into a Memorandum of Understanding with Global Tungsten & Powders Corp. for up to US\$20.0 million in financing ( the "**Financing**") for the acquisition/build-out of, and an off-take commitment ( the "**Off-Take Commitment**") for a specific portion of the output of, Almonty's next tungsten project. Almonty is currently evaluating potential tungsten mining projects. No definitive agreements have been reached on any of the projects currently being evaluated by Almonty. Definitive terms of the Financing and Off-Take Commitment will be finalized once Almonty has reached a definitive agreement to acquire its next tungsten mining project.

### **Additional financing**

On January 31, 2014 Almonty announced that it has entered into two unsecured debt facilities with Banca de Empresas, a subsidiary of Banco Santander Group, totalling €2,500 (CAD\$3,800 as at January 24, 2013). One facility totalling €1.000 (CAD\$1,520) is fully drawn and matures on January 24, 2015 and carries an

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interest rate of 5.28%. The second facility totalling €1,500 (CAD\$2,280) is an un-drawn line of credit that matures on February 20, 2017 and carries an interest rate on drawn funds of 6.067% up to April 24, 2014, after which interest will be charged on drawn funds at a rate of the 12-month Euribor plus 5.5%. The Company intends to use the funds from the Banca Financing for continued evaluation of potential strategic acquisitions and investment opportunities in the tungsten industry and for advancing the development of the Valtreixal Project.

#### **Announcement of no Intention to Make an Offer**

The Irish Takeover Panel imposed a deadline of January 31, 2014 for Almonty to either announce an offer for Ormonde Mining plc (“Ormonde”) under Rule 2.5 of the Irish Takeover Rules or announce that it will not proceed with an offer for Ormonde. At the request of the Irish Takeover Panel, Almonty announced that it does not intend to make an offer for Ormonde. Accordingly, Almonty is bound by the restrictions under Rule 2.8 of the Irish Takeover Rules.

#### **Change of Mining Contractors at Los Santos**

On December 19, 2013, Almonty served notice to Sanchez y Lago, the mining contractor at the Los Santos Project, that it was terminating its agreement effective January 15, 2014. Almonty has entered into a new contract with MOVITEX (Movimientos de Tierras Y Excavaciones, S.L.U.) for contract mining services at Los Santos effective January 15, 2014. The Company has taken the necessary precaution of stockpiling additional ore in order to ensure that production is not interrupted as a result of changing mining contractors. Almonty owed Sanchez y Lago €40 for the demobilization of its equipment and up to €35 for a maintenance workshop owned by Sanchez y Lago that is located at the Los Santos mine site (total payment of up to €75 estimated to be \$109 based on the CAD/Euro exchange rate as of the date notice was given) as a termination fee under its existing contract. This amount became payable in January 2014.

## **9. Risks and Uncertainties**

### **Risk Factors**

The Company operates in the mining industry which is subject to numerous significant risks that can influence profitability. The Company has disclosed several risks below which it believes to be the most significant and that could have a material impact on its current and future operations. Other risks may exist or may arise at a future date. For additional and more detailed risk factors, please see the filing statement dated September 14, 2011 filed in connection with the Qualifying Transaction under the heading “Risk Factors – Risks Relating to the Resulting Issuer’s Business and Industry”.

### **Financial Risks**

#### *Price of Metals and Foreign Exchange Rates*

The Company’s profitability is exposed to commercial risks, notably those linked to the price of tungsten and foreign exchange rates.

Almonty’s policy is to maintain exposure to commodity price movements at its mining operations. The Company sells WO<sub>3</sub> concentrate that is denominated in US\$ per MTU. Every +/- US\$10.00 movement in the average price of 1 MTU of European APT as quoted on the MB exchange impacts the Company’s revenue by +/- US\$8.00 per MTU of WO<sub>3</sub>. The price of tungsten varies considerably and is based on factors outside the control of the Company. Should the market price of tungsten concentrate fall below the Company’s cash operating costs Almonty would cease to generate positive cash flow from operations.

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Almonty's wholly-owned indirect subsidiary, Daytal, operates in Spain in Euros (€). Its output is a commodity that is primarily denominated in United States dollars (USD\$) and Almonty's reporting currency is in Canadian dollars (CAD\$). As such, Almonty's consolidated balance sheet can be significantly affected by movements between the three currencies (CAD\$, USD\$ and €).

During the three months ended December 31, 2013, the value of the € relative to the CAD\$ increased from €1.00 = CAD\$1.3920 as at September 30, 2013 to €1.00 = CAD\$1.4655 as at December 31, 2013, resulting in the Company recording a cumulative translation adjustment gain of \$1,474 for the three months ended December 31, 2013. This amount is recorded as other comprehensive income (loss) on the Consolidated Statement of Operations and Comprehensive Income and accumulated other comprehensive income (loss) as a separate line item in Shareholders' Equity.

*Fluctuation in Interest Rates*

The Company had \$5,679 in long-term debt outstanding at varying levels of fixed and floating interest rates between 4.87-6.53% as at December 31, 2013. The floating rate debt totaled \$5,099 as at December 31, 2013 and is based on a fixed spread over the six-month Euribor rate. Any movement in the six-month Euribor rate over remaining term of the unsecured debt will have an impact on the amount of interest paid by the Company. For every 100 basis point (1.00%) movement in the six-month Euribor rate will cause the amount the Company is required to pay in monthly interest to fluctuate +/- \$5. The Company may, in the future, become a borrower of an additional material amount of funds or repay its existing outstanding long-term debt at any time without penalty. The Company's primary operations are located in Spain and the current European financial crisis that is causing borrowing costs in several European countries to increase may have a negative impact on both the Company's future borrowing costs and its ability to obtain debt financing.

As at December 31, 2013, Almonty had \$103 in capital lease obligations that carry interest rate 8.50% with terms to maturity of 1 year.

See Section 3 "Financial Highlights – Liquidity and Capital Resources" in this MD&A for further information regarding the unsecured debt facilities.

*Access to Capital Markets*

To fund its future growth plans, the Company may become dependent on securing the necessary capital through loans or permanent capital. The availability of this capital is subject to general economic conditions and lender and investor interest in the Company's projects. To facilitate the availability of capital, the Company maintains an investor relations program in order to inform all shareholders and potential investors of the Company's developments.

*Future Financing, Credit and Liquidity risk*

The success of exploration programs, development programs and other transactions related to concessions could have a significant impact on the need for capital. If Almonty decides to develop one of its properties, it must ensure that it has access to the required capital. The Company could finance its need for capital by using working capital, by arranging partnerships or other arrangements with other companies, through equity financing, by taking on long-term debt, or any combination thereof.

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Almonty's maximum exposure to credit risk, excluding the value of any collateral or other security, is the credit worthiness of its customers that are operating as counterparty to Almonty's supplier financing program. All invoices submitted to its major customer under the long-term supply agreement are subject to a supplier finance program. Almonty assigns all trade receivables that are subject to the supplier finance program to a third party bank and receives prepayment from the bank on the invoices assigned. The availability of this program rests solely on the ability of Almonty's customer to continually pay down the supplier financing facility as it comes due in order to ensure Almonty has access to draw on the facility when it ships tungsten concentrate to its customer under the agreement. If Almonty were to no longer have access to the supplier financing program it would revert to normal trade terms with its customer.

#### *Economic Dependency*

Daytal, Almonty's wholly-owned indirect subsidiary, has a long-term supply agreement with one customer who participates in the global tungsten business. Currently over 95% of the revenue earned by the Company's operations is sold to this customer. Almonty is economically dependent on the revenue received from this customer in order to be able to meet its current obligations and is subject to the pricing terms set out in the supply agreement. There is no guarantee that Almonty would be able to find an alternative customer or customers on terms similar to its existing supply agreement should the current customer cease operations or become unable to pay Almonty under the current contract. See Section 8, "Objectives and Outlook – Summary of the Company's Long-Term Supply Agreement", in this MD&A for further details.

### **Operational Risks**

#### *Production*

Daytal's contract with MOVITEX, under which MOVITEX carries out contract mining activities for Daytal at the Los Santos Project, became effective on January 15, 2014 for the life of mine. Daytal currently does not have any mining capabilities of its own and relies on MOVITEX for all mining activity, including waste rock removal, pit development and delivery of ore to Daytal's crushing and processing plant. There is no guarantee that Daytal would be able to replace MOVITEX with another contract mining firm if MOVITEX were no longer able to provide contract mining services to Daytal. Any disruption in the contract mining services provide by MOVITEX would have a negative impact on Daytal's short-term economic viability.

#### *Competition*

The mining industry is very competitive and the Company has to compete with other companies related to the acquisition of attractive mineral properties and the retention of skilled labour. Many competitors possess greater financial, technical and other resources. As a result, the Company may be faced with a shortage or no supply of ore or employees, as well as not being able to maintain or acquire mineral properties on reasonable terms.

#### *Risks Related to Property Title*

Although the Company leases all of the land of the Los Santos Project from third party property owners as well as the two closest municipalities to the Los Santos Project and the Company has obtained legal opinions on the titles to all of its properties, and although it has taken reasonable measures to ensure that all property titles are valid, there is no certainty that the property titles will not be challenged or questioned. Third parties could have valid claims to the lands occupied by the Company or immediately adjacent to the Company's leased lands.

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#### *Dependence on Key Personnel*

The Company is dependent on a relatively small number of key employees, of which the loss of any could have an adverse effect on its operations.

#### *Laws and Regulations*

The Company's exploration and development projects are subject to laws and regulations, including those concerning mining as well as environmental and health and safety matters. The laws and regulations in place are susceptible to change and the impact of any modification is difficult to measure. The Company's policy is to maintain safe working conditions in compliance with applicable health and safety rules.

#### *Licenses and Permits*

There can be no guarantees that the Company will be able to obtain or maintain all the necessary licenses and permits to explore, develop, or maintain its continued operations, or that the Company will be able to comply with all the conditions imposed. The current operating permits and plant capacity limitations at the Los Santos Project allows Almonty to process up to 500,000 tonnes of ore per annum. Any increase in available ore or significant increase in the concentration of tungsten contained in the ore may require the Company to expand its production and processing capabilities. There is no guarantee that Almonty will be able to obtain the necessary permits in order to expand its production footprint.

The mining license for the Los Santos Project was granted in September 2002, for a period of 30 years and is extendable for 90 years. Daytal has to pay annual land taxes (approximately €2 per year) to the government. This amount is related to the surface covered and not to the production of minerals. There are no other royalty payments. The Company files applications in the ordinary course to renew the permits associated with its mining license that it deems necessary and/or advisable for the continued operation of its business. Certain of the Company's permits to operate that are associated with the mining license are currently under application for renewal.

#### *Political Risk*

The Spanish government currently supports the development of their natural resources by foreign and domestic companies. However, there is no assurance the government will not adopt different policies regarding foreign ownership of mineral resources, taxation, exchange rates, environmental protection, labour relations, repatriation of income or expropriation in the future.

#### *Litigation*

All industries, including the mining industry, are subject to legal claims, with and without merit. The Company may in the future be involved in various legal proceedings. While the Company is not aware of any possible legal proceeding that could have a material adverse effect on its financial position, future cash flow or results of operations of the Company, due to the inherent uncertainty of the litigation process and the defence costs which may have to be incurred, even with respect to claims that have not merit, there can be no assurance that the resolution of any particular legal proceeding will not have a material adverse effect on the Company.

#### *Risks Linked to Common Shares*

The price of the common shares of Almonty may fluctuate for several reasons such as exploration results or operating results and cash flow, exchange rates, available financing, lack of liquidity and several other

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factors. It is possible that the price of a common share of Almonty may experience significant fluctuations and that such price might be less than the actual price paid by an investor.

## 10. Disclosure of Internal Controls

Management has established processes to provide them with sufficient knowledge to support representations that they have exercised reasonable diligence that (i) the unaudited consolidated interim financial statements for the three month period ended December 31, 2013 do not contain any untrue statement of 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 is made, as of the date of and for the periods presented by the unaudited consolidated interim financial statements, and (ii) the unaudited consolidated interim financial statements fairly present in all material respects the financial condition, results of operations and cash flow of the Company, as of December 31, 2013, and for the three months ended December 31, 2013.

In contrast to the certificate required for non-venture issuers under National Instrument 52-109 – *Certification of Disclosure in Issuers' Annual and Interim Filings* (“**NI 52-109**”), the Venture Issuer Basic Certificate does not include representations relating to the establishment and maintenance of disclosure controls and procedures (“**DC&P**”) and internal control over financial reporting (“**ICFR**”), as defined in NI 52-109. In particular, the certifying officers filing the certificate are not making any representations relating to the establishment and maintenance of:

- (i) controls and other procedures designed to provide reasonable assurance that information required to be disclosed by the issuer in its annual filings, interim filings or other reports filed or submitted under securities legislation is recorded, processed, summarized and reported within the time periods specified in securities legislation; and
- (ii) a process to provide reasonable assurance regarding the reliability of financial reporting and the preparation of financial statements for external purposes in accordance with the issuer’s generally accepted accounting principles.

The issuer’s certifying officers are responsible for ensuring that processes are in place to provide them with sufficient knowledge to support the representations they are making in the certificate. Investors should be aware that inherent limitations on the ability of certifying officers of a venture issuer to design and implement on a cost effective basis DC&P and ICFR as defined in NI 52-109 may result in additional risks to the quality, reliability, transparency and timeliness of interim and annual filings and other reports provided under securities legislation.

## 11. Management’s Responsibility for Financial Statements

The information provided in this report, including the financial statements, is the responsibility of management. In the preparation of these statements, estimates are sometimes necessary to make a determination of future values for certain assets or liabilities. Management believes such estimates have been based on careful judgements and have been properly reflected in the accompanying financial statements.

February 26, 2014  
On behalf of Management and the Board of Directors,





Management Discussion and Analysis  
For the Three Month Period Ended December 31, 2013  
Dated February 26, 2014

*“Lewis Black”*

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Chairman, President and Chief Executive Officer

## Glossary of Terms

APT	ammonium para tungstate is an intermediate product which is one of the principal chemical forms in which tungsten is traded
Concentrates	the valuable fraction of an ore that is left after waste material is removed in processing
€	Euros
MB	Metal Bulletin of London
MTU	metric tonne unit, equal to 1 percent of a metric tonne or 10 kg (22.046 pounds) of contained WO <sub>3</sub>
Scheelite	a brown tetragonal mineral, CaWO <sub>4</sub> . It is found in pneumatolytic veins associated with quartz, and fluoresces to show a blue color. Scheelite is a mineral of tungsten
Tonne	a metric unit equal to 1,000kg (2,204.6 pounds)
Tungsten concentrates	concentrates generally containing between 40 and 75 percent WO <sub>3</sub>
US\$	United States dollars
W	the elemental symbol for tungsten
WO <sub>3</sub>	tungsten tri-oxide, a compound of tungsten and oxygen