



# VVC EXPLORATION CORPORATION

MANAGEMENT'S DISCUSSION AND  
ANALYSIS

for the Six Months Ended

July 31st, 2013

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**Form 51-102F1**

**VVC EXPLORATION CORPORATION** (the "Company" or "VVC")

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**MANAGEMENT DISCUSSION AND ANALYSIS  
FOR THE SIX MONTHS ENDED JULY 31, 2013**

This Management's Discussion and Analysis ("MD&A") of the Company for the six months ended July 31, 2013 (the "Period") was prepared on September 27, 2013 and should be read in conjunction with the Company's July 31, 2013 condensed unaudited consolidated financial statements and related notes, prepared in accordance with International Financial Reporting Standards ("IFRS"). All financial information disclosed in this report was prepared in accordance with IFRS unless otherwise disclosed.

All amounts herein are expressed in Canadian dollars unless otherwise indicated. The technical information in the MD&A has been approved by Peter Dimmell, P.Geo., a mineral exploration consultant and a director of VVC, who is a qualified person (QP) in both Newfoundland and Labrador and Ontario.

**FORWARD LOOKING INFORMATION**

This MD&A includes forward-looking statements that are subject to risks and uncertainties and other factors that may cause the actual results, performance or achievements expressed or implied by such forward-looking statements. Such factors include general economic and business conditions, which among other things, affect the price of metals, the foreign exchange rate, the ability of the Company to implement its business strategy, and changes in, or the failure to comply with government laws, regulations and guidelines. Unless otherwise required by applicable securities laws, the Company disclaims any intention or obligation to update or revise any forward-looking statements, whether as a result of new information, future events or otherwise. Additional information relating to the Company can be obtained from its News Releases and other public documents at the SEDAR website <[www.sedar.com](http://www.sedar.com)>.

**BUSINESS OVERVIEW**

The Company is a venture issuer reporting in Ontario, British Columbia, Alberta and Quebec. The Company's common shares trade on the TSX Venture Exchange under the symbol "VVC".

The Company is in the business of acquisition and exploration of resource properties in the mineral sector. The Company's principal business activity is the exploration and development of gold and base metal mineral properties both nationally and internationally.

*Mexico*

*a) Cumeral Property*

In April 2010, VVC Exploración de México, S. de R.L. de C.V. ("VVC Mexico") finalized a formal option agreement with 2 Mexican individuals (the "Optionee") relating to a 665-hectare (ha) gold mining project known as Cumeral (the "Cumeral Property") consisting of 3 mining concessions, in the State of Sonora, Mexico. VVC Mexico acquired from the Ministry of Mines, 3 additional concessions covering 5,984 ha, for a total property size of 6,649 ha. These additional concessions are 100% owned by VVC Mexico and are not subject to the Option Agreement. The Cumeral Property is located approximately 140 kilometres south of the City of Tucson, Arizona and 200 kilometres north of the City of Hermosillo. A network of gravel roads and paved highways provide excellent year round access.

The Agreement provided an option to acquire a 100% interest in the Cumeral Property in consideration for US\$800,000 plus applicable taxes ("VAT") payable over a period of three years and the issuance of 200,000 common shares of the Company. The Cumeral Property is subject to the reservation of a 2% Net Smelter Return. A finder's fee of US\$5,000 was paid and 130,000 shares of the Company were issued to 3rd parties who were instrumental in arranging the transaction. There is currently only US\$55,000 remaining in option payments.

Located in the under-explored Sierra Madre Occidental along the well mineralized "Sierra La Jojoba" trend, the Cumeral Property is located approximately 15 km northeast of the Mina Lluvia de Oro and Mina La Jojoba deposits which host over 26 million tonnes of measured, indicated and inferred resources grading 0.525 to 0.741 g/T gold (over 500,000 ounces of gold). This area of Sonora is host to numerous other gold deposits and mines, including Fresnillo PLC's & Newmont Mining Company's La Herradura Gold Mine which in 2009 produced over 255,000 ounces of gold and has proven and probable reserves of 193 million tonnes grading 0.65 g/T gold (4.1 million ounces). Other deposits in the area include the San Francisco (780,000 ounces of gold reserves) and La Colorada (605,000 ounces of measured and indicated gold resources).

Exploration has included geological mapping, prospecting and rock chip sampling (89 samples) over a 120 hectare area in the vicinity of the old pits and shallow shafts (Tularcito area). Four due diligence grab samples returned gold values of 0.03, 3.4, 3.5 and 6.03 g/T and the regional sampling gave values as high as 12.65 g/T, defining five areas of gold/silver mineralization (Areas A to E) associated with alteration (sericite and quartz veining) with associated pyrite and hematite, trending in a northwest-southeast direction. The host units are heavily oxidized quartz sericite to biotite/muscovite schists. The Company also completed 28 air track drill holes totalling 572 metres with 15 holes in Area B and 13 holes in Area C.

Area B, the main area of the artisanal workings, covers an area of 155 by 180 metres. Air track drilling returned values as high as 1.45 g/T gold and 6.74 g/T silver over 14 metres including 4.19 g/T gold over 4 metres. Other values varied from insignificant to 0.42 g/T gold and 14.56 g/T silver over 10 metres. Eight of the holes returned values of 0.1 to 0.4 g/T gold and 1 to 4 g/T silver over widths varying from 4 to 22 metres. Air track drilling on Area C which covered an area of 115 by 200 metres, also gave significant values including 0.44 g/T gold and 0.48 g/T silver over 10 metres, and 0.21 g/T gold and 0.53 g/T silver over widths varying from 6 to 26 metres. Area A which covers an area of 80 by 300 metres, in the northern part of the Property, consists of quartz veins / veinlets carrying minor malachite and azurite. The north copper vein along the contact of a mafic dyke, gave a value of 2.2 g/T gold and 493 g/T silver and 3.73 percent copper from one grab sample. Area D which covers an area of 100 by 270 metres and Area E which covers 140 by 200 metres, located in the southern part of the Cumeral Property, also shows good potential.

In 2011/12, exploration, including geological mapping and rock chip sampling and soil geochemistry was carried out by independent geological consultants, with a National Instrument 43-101 report on the property prepared by Michel Boily, PhD, P.Geo. and filed on SEDAR. Combined results from the 2010-2012 mapping/rock sampling programs show high gold values (i.e 0.5 to > 10 g/t) in hematized and pyritized quartz veins/veinlets associated with mylonitized, gently eastward-dipping, low angle (20° to 40°) faults. Geological mapping in the southern segment of the property has defined at least ten gold-mineralized structures generally confined to areas tested by the air track drilling program of 2010.

A soil geochemical survey carried out to the north of the area covered by the detailed mapping and rock sampling program gave three anomalous areas with values of >50 ppb Au defined within zones characterized by a paucity of outcrops or in unmapped regions (News release June 12/12). The soil geochemistry, in conjunction with gold analyses from rock and soil samples taken from 2010 to 2012, gives a general NNWSSE trend of elevated values extending for 4 km remaining open to the north and south along trend. Preliminary mapping to the west and north of the mineralized zones suggests a similar tectonic / geologic environment with the potential for significant gold-mineralized areas of similar quartz/pyrite/hematite veins.

Rock and soil samples were sent to the ALS Chemex laboratories in Chihuahua, Zacatecas or Hermosillo, Mexico. All Au analyses were by Fire Assay with a gravimetric finish. All other assays were performed by ICP-AES or AAS methods. Samples with ore grade values (>100 ppm Ag, >10,000 ppm Cu) were re-analyzed by ICP-AES or AAS. Gold values in soil samples (at least 25g) were determined by ICP-MS following digestion in Aqua Regia. A compilation map showing the soil geochemical anomalies and gold mineralization is filed on SEDAR as part of the June 12, 2012 news release and is also shown on the VVC website <http://www.vvcexpl.com/news-releases/2012.html>.

The Company plans to carry-out systematic exploration in 2014, including drilling, in all prospective areas. Based on the geological setting and known deposits in the area, it is believed that the Cumeral Property has the potential to host significant gold / silver deposits in the 500,000 to 1 million ounce range. The Company recently carried out 1,000 meters of reverse circulation drilling to allow the efficient planning of the next phase of exploration to confirm potentially exploitable gold deposits on the Cumeral Property.

#### *b) La Tuna Property*

In March 2010, the Company acquired a 3,533 ha gold project known as La Tuna (the "La Tuna Property") located in the Municipality of Alamos, Sinaloa State, Mexico, at the junction of the Rio Fuerte and Rio Baboyahui rivers.

Pursuant to the agreement, VVC's Mexican subsidiary acquired a 100% interest in the La Tuna Property in consideration of a payment of US\$40,000 plus applicable taxes and the issuance of 300,000 common shares of the Company. The La Tuna Property is subject to a 2% NSR Royalty (the "NSR") derived from mineral production, with a buy-back option.

On March 6, 2013, VVC Mexico entered into an Option Agreement with Exploración Río Placer S. A. de C. V. (the "Optionee") for its La Tuna Property. During the 12 year term of the Option Agreement, ending on December 31, 2025, the Optionee will have exclusive mining rights to the La Tuna Property and VVC Mexico will be entitled to a 1% Net Smelter Return ("NSR") Royalty payable on a monthly basis on every dry metric

tonne of ore processed up to US\$3,000,000 (CA\$2,997,600) with a buyback option for US\$1,000,000 (CA\$999,200). The Optionee will also have the option to acquire a 100% interest in the La Tuna concessions by making all required NSR royalty payments and additional payments totalling US\$500,000 (CA\$499,600). US\$20,000 (CA\$20,378), due upon the signing of the agreement, was paid by the Optionee subsequent to the reporting date. The Optionee can at his discretion terminate the option at any time by providing the proper notices in the Option Agreement.

The La Tuna Property has gold potential in paleo placers, present day placers derived from the paleo placers and vein type deposits such as the La Perdida deposit. The river placer deposit and the paleo-placer zones are located mainly along the Rio Baboyahui near the river junction extending to the Rio Fuerte, an area of approximately 500 by 500 meters. The paleo-placer zone carries gold associated with magnetite (from black sand) which may allow definition of the paleo-channels by magnetic surveys. Limited historical sampling in the period from 1987-91 in a "drift" in the paleo-placer mineralization gave a grade of 1 to 3 g/m<sup>3</sup> Au in one of these paleo channels. Historical data (non 43-101 compliant) from 1994 indicates that the area contains 3.7 million m<sup>3</sup> at 2 g/m<sup>3</sup>, equivalent to approximately 200,000 ounces of gold. It should be noted that the "paleo placer" was sampled as a placer deposit and since it is a hard rock deposit it should be sampled by weight using channel, chip or core samples not bulk samples of cubic metres, which has little relevance in a hard rock deposit. Accordingly, the results noted above should be treated with caution.

The La Perdida deposit is located in the north-west part of the La Tuna Property. The structure which hosts the deposit, trends north-west and dips 25 degrees to the south-east. Historical results from 4 grab samples taken in 1991 gave values from 3.29 g/t to 16.23 g/t Au, with three of the samples grading more than 10 g/t Au. The samples were taken from the portal (12.49 g/t), from the ore zone within the deposit (3.29 and 16.23 g/t) and from development muck (11.24 g/t).

#### Canada

##### *c) Timmins area properties (Ontario)*

In fiscal 2008, the Company staked a 9 claim unit property in Timmins Township of Ontario (the "Timmins Twp. Property"), located about 50 km southeast of Timmins, in the Abitibi Greenstone Belt of Northern Ontario. The Property, located in the centre of Timmins Township is deemed to be a prime base metals exploration target as it covers a northwest trending zone of strong airborne electromagnetic responses within a complex magnetic system. An initial program comprising line cutting and detailed geophysical surveys including magnetic, VLF and HLEM electromagnetic surveys was completed with 2 drill targets identified. The encouraging results from these surveys justifies further exploration, however no further work has been carried out since the Company is focused on opportunities considered more economically viable in Mexico.

Due to the lack of follow-up exploration, the Timmins Twp. Property was written down to a minimal value although the Company still retains title. The Company is exploring the possibility of optioning this property to a third party, with a requirement to test drill the targets within a year. This would save the Company the cost of drilling and allow it to focus its efforts on the Mexican properties, while maintaining an interest in this property.

#### Segmented Expenditures per Property

To date, the company has spent the following on its mineral properties:

	<b>La Tuna</b> 1-Feb-13	<b>Cumeral</b> 1-Feb-13	<b>Timmins Twp.</b> 1-Feb-13	<b>Total</b> 1-Feb-13
Opening Balance	110,964	1,351,955	2	1,462,921
Administration		4,645		4,645
Drilling and exploration		66,444		66,444
Consulting		56,548		56,548
Geologist		1,771		1,771
Camp and travel		39,960		39,960
Acquisition		59,380		59,380
Supervision		108,074		108,074
Assaying and analysis		4,131		4,131
General expenses		100		100
Claims and taxes	20,378	25,667		46,045
Recoveries	(20,378)			(20,378)
	<u>110,964</u>	<u>1,718,675</u>	<u>2</u>	<u>1,829,641</u>

Comparative spending on mineral properties in the prior year were as follows:

	<b>La Tuna</b> 1-Feb-12	<b>Cumeral</b> 1-Feb-12	<b>Timmins Twp.</b> 1-Feb-12	<b>Total</b> 1-Feb-12
Opening Balance	79,628	863,980	2	943,610
Administration	329	61,062		61,391
Drilling and exploration				-
Consulting				-
Geologist	1,759	26,077		27,836
Camp and travel		2,137		2,137
Acquisition		163,384		163,384
Supervision				-
Assaying and analysis	389	5,707		6,096
General expenses		129		129
Claims and taxes	9,056	45,488		54,544
Recoveries				-
	<b>91,161</b>	<b>1,167,964</b>	<b>2</b>	<b>1,259,127</b>

#### SELECTED ANNUAL INFORMATION

Set forth below is a summary of the financial data derived from the Company's consolidated financial statements for the past 3 years (CA\$).

	<b><u>2013</u></b>	<b><u>2012</u></b>	<b><u>2011</u></b>
Revenue	\$ -	\$ -	\$ -
Net loss for the year	<b>(720,950)</b>	<b>(973,306)</b>	<b>(3,192,393)</b>
Total assets	<b>2,060,046</b>	<b>1,058,338</b>	<b>902,029</b>
Mineral exploration properties written off	-	-	<b>1,733,327</b>
Stock-based compensation	<b>98,484</b>	<b>204,610</b>	<b>143,869</b>

#### RESULTS OF OPERATIONS – THREE MONTHS

The Company had an operating loss of \$209,111 for the three months ended July 31, 2013 as compared to \$226,392 for the same period in 2012. The expenses for the three months were ended July 31, 2013 were similar to the expenses in 2012. The significant changes were in management and consulting fees which was \$58,000, approximately \$30,578 or 35% less than the \$88,578 in 2012. The reduction in management and consulting fees were however offset by increases in professional fees of \$19,685 and investor relations of \$8,877. Professional fees increased from \$53,325 in 2012 to \$73,010 in 2013 and investor relations increased from \$6,925 in 2012 to \$15,802 in 2013.

The increase in professional fees of \$19,685 was a result of the legal fees associated with the due diligence and legal counsel associated with the proposed transaction in which the Company intends to acquire all of the issued and outstanding shares of Camex Mining Development Group Inc ("Camex"), including common, preferred, non-voting, voting and participating shares, as well as all options, warrants and other securities convertible into shares of Camex, in exchange for the issuance of 59,900,000 common shares of the Company. The acquisition would provide the Company with valuable and property acquisitions and exposure to additional capital to monetize those properties.

The increase in investor relations was expected as the Company has been focusing the last three months on encouraging its shareholders of the importance of this transaction both the Company but more importantly, to shareholders.

There were no stock options granted in the last eighteen months, as a result, the Company had no stock option expense for the three months ended July 31, 2013. Stock option expense was \$26,773 in 2012.

#### RESULTS OF OPERATIONS – SIX MONTHS

The Company's operating loss for the six months ended July 31, 2013 was \$362,420 compared to a loss of \$586,753 for the same period in 2012. The loss in 2013 was \$237,333 less than 2012 due mainly to a non-cash

reduction in stock-based compensation of \$83,537, and a non-cash expensing of re-valued warrants of \$176,371 in 2012. The warrant expensing was done in Q1 of 2012, but was adjusted in Q4 of 2012.

In July of 2012, the Canadian Institute of Chartered Accountants' ("CICA") IFRS discussion group addressed the issue of expensing revalued warrants. The group concluded that, while this treatment was previously accepted as being appropriate, it felt that this accounting treatment was no longer necessary and any warrant revaluation should remain in equity. In light of the CICA's IFRS Discussion group conclusion, the Company felt it appropriate to reverse the formerly acceptable treatment of this expense.

There were no stock options granted in the last eighteen months, as a result, the Company had minor a stock option expense for the six months ended July 31, 2013 of \$7,525. Stock option expense was \$83,537 in 2012.

The only significant increases in 2013 compared to 2012 were in professional fees and interest expense.

As was disclosed in a prior MD&A, professional fees were expected to increase over 2012. The increase is directly related to the due diligence and analysis required for the possible acquisition of Camex. As a result professional fees increased by \$28,935 from \$69,075 in 2012 to \$98,010 in 2013.

The Company is indebted to related parties by way of promissory notes in the amount of \$471,780, and as a result, interest expense on this debt was \$37,152 in 2013 compared to \$27,610 in 2012. The Company will continue to incur this interest expense on the promissory notes at rates ranging from 12% to 15% per annum.

### SUMMARY OF QUARTERLY RESULTS

Set forth below is a summary of the financial data derived from the Company's consolidated financial statements of the 8 most recently completed quarters.

	<u>Jul 31/13</u>	<u>Apr 30/13</u>	<u>Jan 31/13</u>	<u>Oct 31/12</u>	<u>Jul 31/12</u>	<u>Apr 30/12</u>	<u>Jan 31/12</u>	<u>Oct 31/11</u>
Operating Costs	208,627	161,680	7,056	124,998	243,143	356,529	249,314	236,185
Loss on disposition of asset	-	-	-	-	-	3,832	-	-
Foreign exchange	(484)	8,371	(1,235)	(4,457)	(16,751)	-	-	-
Income taxes			7,835	-	-	-	-	-
Write-down of accounts receivables	-	-	-	-	-	-	213,163	-
Gain on sale of investments	-	-	-	-	-	-	36,575	-
Net (loss)	(209,111)	(153,309)	(13,656)	(120,541)	(226,392)	(360,361)	(426,889)	(236,185)

### MATERIAL EVENTS OVER THE EIGHT MOST RECENT QUARTERS

Over the last eight quarters, the Company experienced a number of unusual events that resulted in the Company's losses being magnified.

In an effort to focus its energy on high potential exploration projects, mainly in Mexico, the Company wrote off many of its exploration properties in Q4 2011 and is now in a position to dedicate its financial and operational resources to the Cumeral and La Tuna properties in Mexico.

In Q4 2012, the Company wrote off \$213,163 of IVA taxes receivable because the Company is experiencing some challenges collecting it from the Mexican Government.

Since October 2011, the Company has been incurring interest expense as a result of \$504,562 (Originally - \$613,807) of related party loans to the Company via promissory notes that bear interest rates ranging from 12% to 15% per annum. The interest expense incurred in 2013 represents the amount that is expected to be incurred annually until the debt associated with this expense is satisfied. Should the Company raise additional debt financing, this amount would increase.

### DISCUSSION OF OPERATIONS

The Company has one major property in which it is currently focussing significant financial and operational resources. The Cumeral property, a 665 ha gold mining project, located in the State of Sonora, Mexico has proven to have good potential for mineral reserves. The Company has therefore designed a 2013-2014 strategy round further prospecting, geological mapping, diamond drilling and assaying to allow for better prioritization of targets.

Within specific areas of the property, the Company intends to carry out further grass-root exploration including, but not limited to, a) extending the soil geochemistry to the NW and SE along strike – use the regional

prospecting to target the soil geochemistry; b) detailed prospecting / mapping on soil anomalies as they are found to define drill targets; c) diamond drill the A and B mineralized zones using the existing soil geochemistry to target the drilling plus drill any new soil anomalies located; d) diamond drill the C, D and E zones using the new target model generated from the 2012 RC drilling.

The budget for the above is estimated to be approximately \$300,000 with approximately \$200,000 of this amount to be spent in the diamond drilling phase. The remaining \$100,000 will be spent on geology, geochemistry, assaying and other ancillary costs associated with the exploration program.

This regional work is expected to be completed by late 2014. The Company's current financial position, does however, cast doubt on its ability to execute on this program and the Company may have to push back the start of the program to late 2013 or early 2014 as it is currently committing significant time and effort in sourcing capital.

## **LIQUIDITY AND CAPITAL RESOURCES**

As at July 31, 2013, the Company had a large working capital deficiency of \$712,736 compared to a working capital deficiency of \$100,215 at January 31, 2013. The Company continues to experience losses. The Company will need seek financing within before the end of the year as it does not have sufficient capital to cover its operating expenses and meet its exploration programs. Accounts payable continues to increase due to lack of funds to cover its expenses. Additionally, the Company has not been able to reduce its debt, so interest expense continues to grow.

At July 31, 2013, the Company had current assets of \$49,170 (January 31, 2013 - \$594,204). This amount is not sufficient to cover the Company's operating expenses and exploration commitments approximating \$700,000 and \$55,000 respectively. To obtain financing, the Company may need to issue common shares or obtain funding through additional promissory notes.

The Company intends to spend approximately \$300,000 on its next phase of exploration on the Cumeral property hopefully starting in late 2013 to early 2014. In addition, the Company has to pay \$55,000 in option payments (the last payment) to the Cumeral Optionee in October 2013.

Due to the exploration stage of the Company, it has not generated any revenues or profits. As a result, the Company's funding has historically come either through the sale of shares, exercise of options and or warrants or the borrowing of funds from third parties. As a result of the recent low trading range of the Company's shares, it is unlikely that it will be able to obtain funding through the exercise of any of its 28,571,620 warrants or 2,621,000 options currently outstanding. The lack of revenue and income also make it challenging to borrow funds. The Company is therefore left with the most likely source of funding to be the sale of treasury stock through private placement offerings. The Company is currently in the process of raising financing through a Private Placement up to a maximum of \$1 million which is expected to close by the end of October.

At the annual meeting held in July 2013, the Company received approval from shareholders to complete a transaction with Camex Mining Development Group Inc. ("Camex"). (See below, under the heading "Letter of Intent for the Acquisition of Camex Shares" for more details.) On completion of the transaction, the Company will own additional mineral properties with more advanced stage exploration and successful drill and exploration results. These opportunities provide management with a high degree of confidence that it will be able to raise additional capital related to the completion of the Camex transaction, the committed option payments and the proposed exploration programs.

It is important to note, however, that although the Company has been successful in the past in raising funds, there can be no assurance that any funding required by the Company in the future will be made available to it and, if such funding is available, that it will be offered on reasonable terms.

## **GOING CONCERN**

The ability of the Company to continue as a going concern is dependent on the successful completion of actions taken or planned. In order to meet future expenditures and cover administrative costs, the Company will need to raise additional financing. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or available under terms favourable to the Company. As at July 31, 2013, the Company has accumulated losses of \$28,147,439 and has a working capital deficit of \$712,736.

These factors raise substantial doubt regarding the Company's ability to continue as a going concern. The condensed unaudited consolidated financial statements and this MD&A do not include any adjustments to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.



## OFF-STATEMENTS OF FINANCIAL POSITION ARRANGEMENTS

There are no off-statement of financial position arrangements.

## RELATED PARTY TRANSACTIONS

During fiscal 2012, the Company obtained financing of \$267,735 (3,250,000 Mexican Pesos) via loans from the subsidiary of Camex, a company which is controlled by a shareholder of the Company. The loans charge interest at an annual rate of 12%, compounded monthly, and the interest is payable on a monthly basis. The principal amount of the loans are due by December 31, 2014 and are secured by promissory notes issued by the borrower in favour of the lender. During fiscal 2013, the Company obtained an additional \$251,072 (3,200,000 Mexican Pesos) of financing via loans from the same company under the same terms as the previous loans. The Company has not made the monthly interest payments as required by the terms of the loans and accordingly the interest and the outstanding principal of the loans became due on demand. The Company repaid \$142,017 (1,855,000 Mexican Pesos) of these loans.

As at July 31, 2013 and January 31, 2013, the balance of the loans were \$376,790 (4,595,000 Mexican Pesos) and \$409,562 (5,220,000 Mexican Pesos), respectively.

On March 27, 2012, the Company entered into a Credit Agreement with Camex for a short-term loan of \$60,000, secured by a promissory note bearing interest at 15% per annum, compounded monthly. The principal balance of the loan and accrued interest were due on July 27, 2012. No repayment was made on the principal and accrued interest by the Company and the loan became due on demand with interest accruing on the same basis as on the term of the loan.

On May 1, 2012, the Company entered into a Credit Agreement with Camex for a short-term loan of \$35,000, secured by a promissory note bearing interest at 15% per annum, compounded monthly. The principal balance of the loan and accrued interest were due on September 1, 2012. No repayment was made on the principal and accrued interest by the Company and the loan became due on demand with interest accruing on the same basis as on the term of the loan.

During the period, the Company entered into a non-binding letter of intent ("LOI") with Camex. See note 14 of the condensed unaudited consolidated financial statements.

The principal balances of these loans as at July 31, 2013 are summarized in the table below:

	July 31, 2013	January 31, 2013
Loans maturing December 31, 2014, currently due on demand, bearing interest at 12%	\$ 376,790	\$ 409,562
March 27, 2012 loan due on demand, bearing interest at 15%	60,000	60,000
May 1, 2012 loan due on demand, bearing interest at 15%	35,000	35,000
	<b>\$ 471,790</b>	<b>\$ 504,562</b>

Included in accounts payable and accrued liabilities is \$112,071 of interest payable relating to these promissory notes. Following completion of the Camex Acquisition, these liabilities will be eliminated on consolidation.

Compensation to key management personnel were as follows:

	Three Months Ended July 31,		Six Months Ended July 31,	
	2013	2012	2013	2012
Compensation	\$ 72,000	\$ 54,038	\$ 144,000	\$ 115,500
Share-based payments (1)	-	17,542	5,955	52,765
Total	<b>\$ 72,000</b>	<b>\$ 71,580</b>	<b>\$ 149,955</b>	<b>\$ 168,265</b>

(1) Share-based payments are the fair value of options granted to key management personnel and expensed during the period.

## OUTSTANDING SHARE DATA

### a) Outstanding Common Shares

	Number of shares
Balance, July 31, 2013	90,222,581
Balance, September 27, 2013	90,222,581

### b) Warrants and Stock Options

The continuity of the outstanding share purchase warrants at April 30 and June 28, 2013 is as follows:

Expiry Date	Exercise Price	Balance January 31, 2013	Warrants Issued	Warrants Exercised	Expired/ Cancelled	Balance July 31, 2013
April 11, 2014*	\$0.12 - \$0.18	1,650,000	-	-	-	1,650,000
August 31, 2014	\$0.12 - \$0.18	7,751,620	-	-	-	7,751,620
January 29, 2014	\$0.12 - \$0.18	19,170,000	-	-	-	19,170,000
	\$0.12 - \$0.18	28,571,620	-	-	-	28,571,620

\* Prior to expiry, the expiry date of 9,521,430 warrants initially issued on April 11, 2011 and expiring April 11, 2012, was extended to April 11, 2014 and the exercise price was amended to \$0.12 in the first year of the extended period and \$0.18 in the second year.

The weighted average remaining contractual life and weighted average exercise price of options outstanding and of options exercisable as at July 31, 2013 and September 27, 2013 are as follows:

Options Outstanding				Options Exercisable	
Exercise Range	Number Outstanding	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (years)	Number Exercisable	Weighted Average Exercise Price
\$0.15 - \$0.20	1,200,000	\$ 0.20	8.22	1,200,000	\$0.20
\$0.28 - \$0.29	575,000	\$ 0.28	1.15	575,000	\$0.28
\$0.30 - \$0.30	586,000	\$ 0.30	1.28	586,000	\$0.30
\$0.36 - \$0.36	260,000	\$ 0.36	0.94	260,000	\$0.36
	2,621,000	\$ 0.26	4.65	2,621,000	\$0.26

No stock options were granted during the period.

## FINANCIAL INSTRUMENTS

The Company's financial instruments consist of cash, other receivable and accounts payable and accrued liabilities and amounts due to related parties. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments.

The fair value of financial assets and liabilities together with the carrying amounts in the consolidated balance sheets are as follows:

	July 31, 2013	January 31, 2013
Fair value through profit or loss, measured at fair value:		
Cash and cash equivalents	\$ 8,672	\$ 513,674
Loans and receivable, measured at amortized cost:		
Accounts receivable	\$ 36,502	\$ 65,530
Other liabilities, measured at amortized cost:		
Accounts payable and accrued liabilities	\$ 282,281	\$ 182,022
Due to related party	\$ 471,790	\$ 504,562

The fair value of the Company's financial assets and liabilities approximates their respective carrying values as at the balance sheet dates because of the short term maturity of these instruments.

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 - valuation based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities.

Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability either directly or indirectly.

Level 3 - valuation techniques based on inputs for the asset or liability that are not based on observable market data.

At July 31, 2013 and January 31, 2013, cash was measured using level 1 inputs.

#### ***Credit Risk***

Financial instruments that potentially subject the Company to concentrations of credit risk consist of cash and certain of its receivables. The Company does not consider these financial instruments to be exposed to significant credit risk.

#### ***Liquidity Risk***

The Company has no income and relies on equity financing to support its exploration programs. Management prepares budgets and ensures funds are available prior to commencement of any such program. As at July 31, 2013, the Company does not have sufficient capital to fund its operations over the next twelve months. As at July 31, 2013, the Company had a cash balance of \$8,672 and \$513,674 on January 31, 2013 to settle current liabilities of \$761,906 at July 31, 2013 and \$694,419 at January 31, 2013.

#### ***Market Risk***

Market risk is the risk of loss that may arise from changes in market factors such as interest rates and commodity and equity prices.

#### ***Price Risk***

The Company is exposed to price risk with respect to commodity and equity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. Commodity price risk is remote since the Company is not a producing entity.

Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. The Company closely monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

#### ***Sensitivity Analysis***

The Company does engage in significant transactions and activities in currencies other than its reported currency. The Company's exploration activities are primarily in Mexico; accordingly, the resulting assets and liabilities are exposed to foreign exchange fluctuations.

The Company is exposed to foreign currency risk on fluctuations of financial instruments related to cash, accounts receivable and accounts payable and accrued liabilities that are denominated in Mexican Pesos. Sensitivity of closing balances to a plus or minus 10% change in foreign exchange rates, with all other variables held constant, would affect net income by approximately \$4,305.

#### **LETTER OF INTENT FOR THE ACQUISITION OF CAMEX SHARES**

On April 12, 2013, the Company entered into a non-binding letter of intent ("LOI") with Camex. Pursuant to the LOI, the Company intends to acquire all of the issued and outstanding shares of Camex, including common, preferred, non-voting, voting and participating shares, as well as all options, warrants and other securities convertible into shares of Camex, in exchange for the issuance of 59,900,000 common shares of the Company, subject to adjustments, if any, as mutually agreed upon based on due diligence.

During the due diligence investigation period, the Company and Camex have agreed to proceed diligently to negotiate Definitive Agreements, including a share purchase agreement and any other agreements both parties deem necessary.

On July 30, 2013, at the annual general meeting and special meeting, shareholders approved the acquisition of Camex. The parties are now in the process of gathering signatures on all required closing documents as well as finalizing the Definitive Agreement to be submitted to the TSX Venture Exchange. Closing of the Transaction is

conditional on, among other things, the satisfactory completion of the Company's due diligence investigations and the approval of the TSX Venture Exchange

## **OTHER MD&A REQUIREMENTS**

### *Risks*

The Company's business of exploring for mineral resources involves a variety of operational, financial and regulatory risks that are typical in the natural resource industry. These factors include the inherent risks involved in the exploration and development of mineral properties, the uncertainties involved in interpreting drilling results and other geological data, fluctuating metal prices, the possibility of project cost overruns or unanticipated costs and expenses, uncertainties relating to the availability and costs of financing needed in the future and other factors. The Company attempts to mitigate these risks and minimize their effect on its financial performance, but there is no guarantee that the Company will be profitable in the future, and the Company's common shares should be considered speculative.

The recoverability of amounts shown as mining interests, and property plant and equipment, is dependent upon a number of factors including environmental risks, legal and political risks, the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying assets, the ability of the Company to obtain necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

There can be no assurance that any funding required by the Company will become available to it, and if so, that it will be offered on reasonable terms, or that the Company will be able to secure such funding through third party financing or cost sharing arrangements. Furthermore, there is no assurance that the Company will be able to secure new mineral properties or projects, or that they can be secured on competitive terms.

## **OUTLOOK**

The Company's primary focus is the exploration of its mineral properties in Mexico, with emphasis on the Cumeral Property, in Sonora State, where an air track drilling program has given positive results which require further follow up by drilling. In addition, additional unexplored properties to the northwest along trend also appear to hold good potential for gold / silver mineralization. The Company believes that further exploration is warranted and as such has commenced 1,000 meters of reverse circulation drilling on the main Cumeral Property. This drilling campaign is the first phase of drilling recommendations made in a recent internal report by Michel Boily, PhD, P. Geo., an independent Qualified Person. Management is optimistic that further positive results are likely.

The 100% owned La Tuna Property in Sinaloa State which shows good potential for gold / silver mineralization in a number of geological settings has been optioned to Exploración Río Placer S. A. de C. V. Management believes that Exploración Río Placer is well positioned to operate the La Tuna Property and the agreement could lead to a profitable endeavour for both parties.

Upon the conclusion a definitive agreement with the shareholders of Camex, the Company will take on the responsibilities for the Samalayuca and Escondida properties currently owned by Camex.

The Company needs to raise more money in order to proceed with the Camex transaction and further explore its own and the Camex properties if the deal for Camex goes through.



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