

Starrex Mining Corporation Ltd.

Financial Statements

December 31, 2013 and 2012

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Independent Auditor's Report

To the Shareholders of Starrex Mining Corporation Ltd.

We have audited the accompanying financial statements of Starrex Mining Corporation Ltd., which comprise the statement of financial position as at December 31, 2013, and the statements of comprehensive loss, changes in equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Starrex Mining Corporation Ltd. as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Other matters

The financial statements as at December 31, 2012 and for the year then ended were audited by MSCM LLP of Toronto, Canada, prior to its merger with MNP LLP. MSCM LLP expressed an unmodified opinion on those statements on April 29, 2013.

MNP LLP

**Chartered Professional Accountants
Licensed Public Accountants**

Toronto, Ontario
March 17, 2014

Starrex Mining Corporation Ltd.

Statements of Financial Position as at December 31, 2013 and 2012

| | 2013 | 2012 |
|---|---------------------|-------------------|
| Assets | | |
| Current assets | | |
| Cash and cash equivalents | \$ 720,659 | \$ 793,484 |
| Funds held in trust (note 6) | 895,143 | - |
| Prepaid expenses | 565 | 1,250 |
| | 1,616,367 | 794,734 |
| Equipment (note 4) | - | 77 |
| | \$ 1,616,367 | \$ 794,811 |
| Liabilities | | |
| Current liabilities | | |
| Accounts payable and accrued liabilities (note 5) | \$ 189,632 | \$ 91,066 |
| Loan payable to related party (note 5) | - | 234,826 |
| | 189,632 | 325,892 |
| Equity | | |
| Share capital (note 6) | 2,318,042 | 1,217,644 |
| Contributed surplus (note 7) | 15,029 | 11,603 |
| Deficit | (906,336) | (760,328) |
| | 1,426,735 | 468,919 |
| | \$ 1,616,367 | \$ 794,811 |

The accompanying notes are an integral part of these financial statements.

Approved by the Board

Signed: "Garrett Clayton"

Director

Starrex Mining Corporation Ltd.

Statements of Comprehensive Loss

for the years ended December 31, 2013 and 2012

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|---------------------|
| Income | | |
| Investment income | \$ 7,377 | \$ 5,939 |
| Expenses | | |
| General | 1,163 | 1,136 |
| Government, regulatory and filing fees | 14,908 | 9,459 |
| Interest expense | 815 | 1,749 |
| Loss from disallowed GST/HST (note 10) | - | 16,555 |
| Management and corporate services (note 5) | 40,923 | 40,326 |
| Professional fees | 76,021 | 28,987 |
| Share based payments (note 7) | 3,426 | - |
| Shareholder services | 16,052 | 14,928 |
| Depreciation | 77 | 21 |
| | <u>153,385</u> | <u>113,161</u> |
| Net loss and comprehensive loss for the year | \$ (146,008) | \$ (107,222) |
| Basic and diluted loss per common share (note 9) | \$ (0.04) | \$ (0.03) |

The accompanying notes are an integral part of these financial statements.

Starrex Mining Corporation Ltd.

Statements of Changes in Equity

for the years ended December 31, 2013 and 2012

| | Share Capital | | | | |
|--|-----------------------------|---------------------|--------------------------------|---------------------|---------------------|
| | Number of Shares | Amount | Contributed Surplus | Deficit | Total |
| Balance, December 31, 2011 | 3,429,566 | \$ 1,203,723 | \$ 15,524 | \$ (653,106) | \$ 566,141 |
| Stock options exercised | 20,000 | 13,921 | (3,921) | - | 10,000 |
| Net loss and comprehensive loss for the year | - | - | - | (107,222) | (107,222) |
| Balance, December 31, 2012 | 3,449,566 | 1,217,644 | 11,603 | (760,328) | 468,919 |
| Private placement | 3,728,000 | 900,000 | - | - | 900,000 |
| Less: costs of issuance | - | (34,428) | - | - | (34,428) |
| Share for debt settlement | 939,304 | 234,826 | - | - | 234,826 |
| Share based payments | - | - | 3,426 | - | 3,426 |
| Net loss and comprehensive loss for the year | - | - | - | (146,008) | (146,008) |
| Balance, December 31, 2013 | 8,116,870 | \$ 2,318,042 | \$ 15,029 | \$ (906,336) | \$ 1,426,735 |

The accompanying notes are an integral part of these financial statements.

Starrex Mining Corporation Ltd.

Statements of Cash Flows

for the years ended December 31, 2013 and 2012

| | 2013 | 2012 |
|---|-------------------|-------------------|
| Cash flow from operating activities | | |
| Net loss for the year | \$ (146,008) | \$ (107,222) |
| Items not affecting cash | | |
| Share based payments | 3,426 | - |
| Depreciation | 77 | 21 |
| | (142,505) | (107,201) |
| Other sources (uses) of cash from operations: | | |
| Other receivables | - | 7,401 |
| Prepaid expenses | 685 | (1,250) |
| Accounts payable and accrued liabilities | 98,566 | 41,756 |
| GST/HST payable | - | 18,304 |
| | (43,254) | (40,990) |
| Cash flow from financing activities | | |
| Private placement | 900,000 | - |
| Share issuance costs | (34,428) | - |
| Funds held in trust | (895,143) | - |
| Exercise of stock options | - | 10,000 |
| | (29,571) | 10,000 |
| Decrease in cash and cash equivalents | (72,825) | (30,990) |
| Cash and cash equivalents, beginning of year | 793,484 | 824,474 |
| Cash and cash equivalents, end of year | \$ 720,659 | \$ 793,484 |

The accompanying notes are an integral part of these financial statements.

Notes to the Financial Statements

December 31, 2013 and 2012

1. Business of the Company

Nature of Business

Starrex Mining Corporation Ltd. (“the Company”) was incorporated on October 2, 1982 pursuant to the Canada Business Corporation Act under the name Starrex Mining Corporation. The Company's address is 1801 – 180 Dundas Street West, Toronto, Ontario M5G 1Z8. It is a Canadian company focusing on the review and evaluation of diverse business proposals.

These financial statements were approved by the Board of Directors on March 17, 2014.

2. Basis of Presentation and Statement of Compliance

(a) Statement of Compliance

These financial statements have been prepared in compliance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”).

The accounting policies, which are detailed in Note 3, have been applied consistently to all periods presented in these financial statements.

(b) Basis of Presentation

These financial statements have been prepared on a historical cost basis except for certain financial instruments that have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

(c) Significant Accounting Estimates and Judgments

The preparation of these financial statements requires management to make judgments and estimates that affect the reported amounts of assets and liabilities at the financial reporting date and reported amounts of expenses during the reporting period. Actual outcomes could differ from these judgments and estimates. These financial statements include judgments and estimates which, by their nature, are uncertain. The impacts of such judgments and estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised, and also in future periods when the revision affects both current and future periods.

(d) Functional Currency

The presentation and functional currency of the Company is the Canadian dollar.

3. Significant Accounting Policies

(a) Changes in accounting policies

The Company's accounting policies will typically change only when there is a change in IFRS. Changes to IFRS effective for the current fiscal year were as follows:

IFRS 13 – Fair Value Measurement

IFRS 13 converged IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard created a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus is on an exit price. The Company adopted this policy January 1, 2013 and there was no effect on its Financial Statements.

Notes to the Financial Statements

December 31, 2013 and 2012

3. Significant Accounting Policies - continued

(a) Changes in accounting policies - continued

IAS 1 – Presentation of Financial Statements

IAS 1 requires an entity to group items presented in the Statement of Comprehensive Income on the basis of whether they may be reclassified to earnings subsequent to initial recognition. For those items presented before taxes, the amendments to IAS 1 also require that the taxes related to the two separate groups be presented separately. The Company adopted this policy January 1, 2013 and there was no effect on its Financial Statements.

(b) Financial Instruments

The Company's financial instruments are comprised of the following:

Financial Assets

Cash and cash equivalents

Funds held in trust

Classification

Loans and receivables

Loans and receivables

Financial Liabilities

Accounts payable and accrued liabilities

Loan payable to related party

Classification

Other financial liabilities

Other financial liabilities

Loans and receivables – These are financial assets with fixed or determinable payments that are not quoted in an active market. They are initially recognized at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

Other financial liabilities - These financial instruments are recognized initially at fair value, net of any directly attributable transaction costs. Subsequent to initial recognition these financial liabilities are measured at amortized cost using the effective interest method. Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

The effective interest method - The effective interest method is a method of calculating the amortized cost of a financial instrument and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash receipts or payments through the expected life of the financial instrument to the net carrying amount on initial recognition.

(c) Impairment of financial assets

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been negatively impacted. Evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

Notes to the Financial Statements

December 31, 2013 and 2012

3. Significant Accounting Policies - continued

(c) Impairment of financial assets - continued

The carrying amount of financial assets is reduced by any impairment loss directly. If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the instrument at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

(d) Equipment

Equipment is recorded at cost. Depreciation is provided over its expected useful life using the following methods and annual rates:

| | |
|------------------|-----------------------|
| Office furniture | 20% declining balance |
|------------------|-----------------------|

(e) Cash and cash equivalents

Cash and cash equivalents include deposits held with banks and other short-term highly liquid investments with original maturities of three months or less.

(f) Income taxes

Income taxes on the profit or loss for the years presented comprises current and deferred tax.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years. Deferred tax is recorded using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the end of the financial reporting period.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its tax assets and liabilities on a net basis.

(g) Stock-based compensation

The Company has in effect a stock option plan ("the Plan") which is described in note 7. The Plan allows Company employees, directors and officers to acquire shares of the Company for a specified option amount set on the date of grant. Stock options awarded are accounted for using the fair value-based method. Fair value is calculated using the Black-Scholes model and is recorded as stock-based compensation expense over the vesting period of the options. Consideration paid on the exercise of stock options is credited to share capital. The contributed surplus associated with the options is transferred to share capital upon exercise.

(h) Loss per share

Basic loss per common share is calculated by dividing the loss attributed to shareholders for the year by the weighted average number of common shares outstanding in the year. Diluted loss per common share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all dilutive potential common shares.

Notes to the Financial Statements

December 31, 2013 and 2012

3. Significant Accounting Policies - continued

(i) *Future changes in accounting standards that may affect the Company and have not yet been adopted*

IFRS 9 - Financial Instruments

Amended November 2013, effective for annual periods beginning on or after January 1, 2018, with early adoption permitted. IFRS 9 introduces new requirements for the classification and measurement of financial instruments. Management anticipates that this standard will be adopted in the Company's financial statements for the year beginning January 1, 2018 and has not yet considered the potential impact of its adoption.

4. Equipment

| | Office Furniture |
|---|-------------------------|
| Cost: | |
| Balance, December 31, 2013, 2012 and 2011 | \$ 13,124 |
| Accumulated Depreciation: | |
| Balance, December 31, 2011 | \$ (13,026) |
| Depreciation | (21) |
| Balance, December 31, 2012 | (13,047) |
| Depreciation | (77) |
| Balance, December 31, 2013 | \$ (13,124) |
| Carrying amounts: | |
| At December 31, 2012 | \$ 77 |
| At December 31, 2013 | \$ - |

5. Related Party Transactions

The Company had the following transactions with officers and directors of the Company and private companies controlled by officers and directors of the Company for management consulting and other services required by the Company:

- i) The Company incurred expenses of \$Nil in 2013 (2012 - \$11,250) with Secorp Ltd. ("Secorp"), a corporation controlled by an individual who was then a director and officer of the Company, for accounting, administrative and secretarial services rendered. These expenses are included in management and corporate services. At December 31, 2013 the amount of \$Nil (2012 - \$22,750) was payable on account of these fees.
- ii) The Company incurred \$15,000 in management fees in 2013 (2012 - \$16,000) to the President for services provided to the Company prior to his resignation in December 2013. The former President continues to be a director of the Company. These fees are included in management and corporate services. At December 31, 2013 the amount of \$31,000 (2012 - \$16,000) was payable on account of these fees.

Notes to the Financial Statements

December 31, 2013 and 2012

5. Related Party Transactions - continued

- iii) The Company paid \$500 each (2012 - \$Nil), to two directors for their attendance at the annual general meeting and subsequent Board meeting. These fees are included in management and corporate services.
- iv) The Company issued 50,000 stock options to a director of the Company (2012 - Nil).
- v) The loan payable to related party represents advances of \$Nil (2012 - \$234,826) from Talent Oil and Gas Ltd., a corporation controlled by a director and officer of the Company. During the year this loan was settled through the issuance of 939,304 common shares of the Company (*note 6*).
- vi) The Company issued 400,000 common shares to a Director for \$100,000 in connection with a private placement (*note 6*).

6. Share Capital

Authorized

The Company is authorized to issue an unLtd. number of common shares.

Issued

| | Number of common shares | Amount |
|---------------------------------------|--|---------------------|
| Balance, December 31, 2011 | 3,429,566 | \$ 1,203,723 |
| Stock options exercised | 20,000 | 10,000 |
| Fair value of stock options exercised | - | 3,921 |
| Balance, December 31, 2012 | 3,449,566 | 1,217,644 |
| Private placement, net | 3,600,000 | 833,572 |
| Finders' fees on private placement | 128,000 | 32,000 |
| Debt settlement | 939,304 | 234,826 |
| Balance, December 31, 2013 | 8,116,870 | \$ 2,318,042 |

During December 2013 the Company completed a private placement of 3,600,000 common shares, at \$0.25 per share, for gross proceeds of \$900,000 inclusive of 400,000 common shares, at \$0.25 per share, issued to a director for proceeds of \$100,000. The proceeds were received in trust and a balance of \$895,143 remained in trust as at the financial reporting date. The Company incurred issuance costs of \$34,428 and paid a finders' fee by issuing 128,000 common shares which is equal to 4% of the common shares issued to subscribers that were sourced by the finder. A value of \$32,000, based on \$0.25 per share, has been attributed to this finder's fee.

Coincident with the private placement the Company closed a share for debt transaction whereby it issued 939,304 common shares, at \$0.25 per share, in settlement of a loan payable to a related party in the amount of \$234,826.

Notes to the Financial Statements

December 31, 2013 and 2012

7. Share-Based Payments

The Company has a stock option plan (the "Plan") that enables its directors, officers, employees, consultants, and advisors to acquire common shares of the Company. Options are granted at the discretion of the Board of Directors. Under the terms of the plan, options totaling up to 10% of the common shares outstanding from time to time are issuable. The vesting period and expiration period are fixed at the time of grant at the discretion of the Board of Directors. The fair values of stock options granted have been determined using the Black-Scholes model and are added to contributed surplus as follows:

| | 2013 | 2012 |
|---------------------------------------|------------------|-----------|
| Opening balance | \$ 11,603 | \$ 15,524 |
| Fair value of stock options exercised | - | (3,921) |
| Share based payments | 3,426 | - |
| Closing balance | \$ 15,029 | \$ 11,603 |

Details of options outstanding:

| | Common Shares Under Option | Number of Options Vested | Exercise Price | Expiry Date |
|----------------------|-------------------------------|-----------------------------|-------------------|--------------|
| Granted May 21, 2013 | 50,000 ⁽¹⁾ | Nil | \$ 0.20 | May 21, 2018 |

⁽¹⁾ A Director of the Company holds these options. The options will vest as to 50% on May 21, 2014 and 50% on May 21, 2015.

The following weighted average assumptions were used to calculate the fair value of the stock options granted during the period:

| | 2013 | 2012 |
|-------------------------------|--------------------|-------------|
| Dividend yield | Nil | Nil |
| Risk free interest rate (%) | 1.15 - 1.30 | None issued |
| Expected stock volatility (%) | 76.86 | None issued |
| Expected life (years) | 5 | None issued |

8. Income Taxes

(a) Income tax provision (recovery)

The following table reconciles the expected income tax provision (recovery) at the Canadian Federal and Provincial statutory rate of 26.5% (2012 – 27.0%) to the amount recognized in the statement of comprehensive loss:

| | 2013 | 2012 |
|---|----------------|--------------|
| Loss before income taxes | \$ (146,008) | \$ (107,222) |
| Expected income tax (recovery) | \$ (38,690) | \$ (28,950) |
| Adjustments resulting from: | | |
| Permanent differences | 910 | 470 |
| Change in income tax rates | 8,040 | - |
| Share issuance costs claimed | (1,825) | - |
| Deductible temporary differences not recognized | 31,565 | 28,480 |
| Provision for income taxes | \$ - | \$ - |

Notes to the Financial Statements

December 31, 2013 and 2012

8. Income Taxes - continued

(a) Income tax provision (recovery) - continued

The 2013 statutory tax rate of 26.5% has changed from the 2012 statutory tax rate of 27% because of a reduction in the provincial substantively enacted tax rate.

(b) Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following items:

| | 2013 | 2012 |
|----------------------|--------------|--------------|
| Capital losses | \$ 2,170,530 | \$ 2,170,530 |
| Non-capital losses | \$ 670,400 | \$ 521,700 |
| Share issuance costs | \$ 27,540 | \$ - |
| Equipment and other | \$ 300 | \$ 200 |

The capital losses may be carried forward indefinitely but may only be used to offset capital gains. The non-capital losses will expire as noted in the table below. Share issuance costs will be amortized annually from 2014 to 2017. The equipment and other amount may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the Company can utilize the benefits therefrom.

(c) Non-capital losses

The non-capital losses expire as per the years and amounts outlined below:

| | |
|------|-------------------|
| 2014 | \$ 47,200 |
| 2015 | 53,600 |
| 2026 | 47,000 |
| 2027 | 48,100 |
| 2029 | 79,500 |
| 2030 | 69,700 |
| 2031 | 71,000 |
| 2032 | 105,500 |
| 2033 | 148,800 |
| | \$ 670,400 |

9. Net Loss per Share

Basic and diluted loss per share has been calculated based on the weighted average number of common shares outstanding of 3,730,883 (2012 - 3,438,364). Stock options were excluded from the calculation of the weighted average number of diluted common shares outstanding because their effect would have been anti-dilutive.

Notes to the Financial Statements

December 31, 2013 and 2012

10. Disallowed GST/HST

The Canada Revenue Agency (“CRA”) has determined that the Company is not entitled to reclaim any of the GST or HST it incurs on its business expenses. A notice of reassessment was issued requiring the repayment of \$16,555 in GST and HST previously refunded for the period from September 26, 2007 to December 31, 2011. This amount was charged to income at December 31, 2012 and all subsequent GST or HST incurred has been charged to the appropriate accounts for which the underlying expenditures relate.

11. Capital Disclosures

The Company's objectives when managing capital are to maintain its ability to continue as a going concern in order to provide return for shareholders and to ensure sufficient resources are available to meet day to day operating requirements.

The Company considers the items included in shareholders' equity as capital, which totals \$1,426,735 as at December 31, 2013 (2012 - \$468,919).

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company is not subject to externally imposed capital requirements and there has been no change in the overall capital risk management strategy during the year.

12. Supplemental Cash Flow Information

| | 2013 | 2012 |
|--------------------------------|------------|----------|
| Operating cash flows include: | | |
| Interest received | \$ 6,862 | \$ 5,999 |
| Income taxes paid | \$ - | \$ - |
| Non-cash financing activities: | | |
| Shares issued for debt | \$ 234,826 | \$ - |
| Shares issued for finder's fee | \$ 32,000 | \$ - |

13. Financial Risk Factors

The Company's financial instruments consist of loans and receivables and other financial liabilities as further explained in note 3(b). As at December 31, 2013, the carrying values and fair values of the Company's financial instruments are approximately the same.

The Company is exposed, in varying degrees, to the following financial instrument related risks:

Credit Risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is in its cash equivalents. This risk is managed through the use of a major bank which is a high credit quality financial institution as determined by rating agencies.

Notes to the Financial Statements

December 31, 2013 and 2012

13. Financial Risk Factors - continued

Liquidity Risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available working capital to meet its liquidity requirements. At December 31, 2013 the Company had cash and cash equivalents of \$720,659 (2012 - \$793,484) available to settle current financial liabilities of \$189,632 (2012 - \$325,892).

Market Risk

The only significant market risk exposure to which the Company is exposed is interest rate risk. The Company's exposure to interest rate risk relates to its ability to earn interest income on cash balances at variable rates. The fair value of the Company's cash and cash equivalents is relatively unaffected by changes in short-term interest rates.