# MINERVA MINERALS LIMITED

## FINANCIAL STATEMENTS

## FOR THE YEARS ENDED SEPTEMBER 30, 2012 & 2011

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## MANAGEMENT'S RESPONSIBILITY FOR AUDITED FINANCIAL REPORTING

The accompanying audited financial statements of Minerva Minerals Limited (the "Company") are the responsibility of the management and Board of Directors of the Company.

The audited financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with International Financial Reporting Standards. When alternative accounting methods exist, management has chosen those it deems most appropriate in the circumstances. Financial statements are not precise since they include certain amounts based on estimates and judgments. Management has determined such amounts on a reasonable basis in order to ensure that the financial statements are presented fairly, in all material respects.

Management has established systems of internal control over the financial reporting process, which are designed to provide reasonable assurance that relevant and reliable financial information is produced.

The Board of Directors is responsible for reviewing and approving the audited financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the audited financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the audited financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company’s affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

January 23, 2013

| | |
|---|---|
| “David Jenkins” (signed) | “Johnny Oliveira” (signed) |
| President | Chief Financial Officer |

**PALMER REED**
CHARTERED ACCOUNTANTS

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Telephone: (416) 599-9186 Fax: (416) 599-9189 Email: Palmerreed@palmerreed.com

# INDEPENDENT AUDITOR'S REPORT

To the shareholders of
Minerva Minerals Limited

We have audited the accompanying financial statements of Minerva Minerals Limited, which comprise the statements of financial position as at September 30, 2012, September 30, 2011 and October 1, 2010, and the statements of loss, comprehensive loss, changes in equity and cash flows for the years ended September 30, 2012 and September 30, 2011, 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 audits. We conducted our audits 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 Company'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 Company'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 in our audits 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 Minerva Minerals Limited as at September 30, 2012, September 30, 2011 and October 1, 2010, and its financial performance and cash flows for the years ended September 30, 2012 and September 30, 2011 in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

Without qualifying our opinion, we direct attention to Note 1 in the financial statements which describes matters and conditions that indicate the existence of material uncertainty that may cast significant doubt about Minerva Minerals Limited's ability to continue as a going concern.

TORONTO, ONTARIO

Palmer Reed

January 24, 2013

Chartered Accountants
Licensed Public Accountants

**Minerva Minerals Limited**
**Statements of Financial Position**
(Expressed in Canadian dollars)

| *As at,* | September 30, 2012 $ | September 30, 2011 $ | October 1, 2010 $ |
|---|---|---|---|
| **ASSETS** | | (Note 3) | (Note 3) |
| Current | | | |
| Cash (Note 5) | **161,414** | 201,585 | 1,552 |
| Trade and other receivables (Note 6) | **1,824** | 1,606 | 2,333 |
| | **163,238** | 203,191 | 3,885 |
| **LIABILITIES** | | | |
| Current | | | |
| Trade and other payables (Note 7) | **7,196** | 4,229 | 42,515 |
| Due to related party (Note 8) | **-** | - | 17,560 |
| | **7,196** | 4,229 | 60,075 |
| **Equity** | | | |
| Capital stock (Note 9 (b)) | **660,343** | 654,143 | 268,556 |
| Reserve for warrants (Note 10) | **67,059** | 68,259 | 12,259 |
| Reserve for share based payments (Note 11) | **-** | - | 68,467 |
| Accumulated deficit | **(571,360)** | (523,440) | (405,472) |
| | **156,042** | 198,962 | (56,190) |
| | **163,238** | 203,191 | 3,885 |

*Nature of Operations and Going Concern (Note 1)*
*Commitments and Contractual Obligations (Notes 12 and 15)*

Approved on behalf of the Board of Directors on January 24, 2013:

"David Jenkins" (signed)
*Director*

"James Fairbairn" (signed)
*Director*

The accompanying notes are an integral part of these financial statements

**Minerva Minerals Limited**
**Statements of Loss and Comprehensive Loss**
(Expressed in Canadian dollars)

| For the years ended September 30, | 2012 $ | 2011 $ (Note 3) |
|---|---|---|
| Salaries, management and consulting fees | **-** | 75,600 |
| Accounting, audit and legal | **28,019** | 19,266 |
| Office, general and administration | **568** | 2,002 |
| Public relations, filing, transfer and regulatory fees | **12,754** | 12,820 |
| Exploration and evaluation expenditures (Note 12) | **6,579** | 8,280 |
| **Net loss and comprehensive Loss** | **47,920** | 117,968 |
| **Loss per share - basic and diluted** | **0.01** | 0.02 |
| **Weighted average number of common shares - basic and diluted (000's)** | **9,165** | 5,940 |

The accompanying notes are an integral part of these financial statements

**Minerva Minerals Limited**
**Statement of Changes in Equity**
(Expressed in Canadian dollars)

| | Share Capital | | Reserves | | | |
|---|---|---|---|---|---|---|
| | Number of shares | Amount | Warrants | Share based payments | Accumulated deficit | Total |
| Balance at October 1, 2010 | 4,331,000 | $ 268,556 | $ 12,259 | $ 68,467 | $ (405,472) | $ (56,190) |
| Private placements, net of issue costs | 4,400,000 | 297,520 | - | - | - | 297,520 |
| Warrants issued on private placement | - | (56,000) | 56,000 | | - | - |
| Shares issued on exercise of options | 420,000 | 75,600 | - | - | - | 75,600 |
| Transfer of fair value of reserves on option exercises | - | 68,467 | - | (68,467) | - | - |
| Net loss for the year | - | - | - | - | (117,968) | (117,968) |
| **Balance at September 30, 2011** | **9,151,000** | **$ 654,143** | **$ 68,259** | **$ -** | **$ (523,440)** | **$ 198,962** |
| **Shares issued on exercise of warrants** | 50,000 | 5,000 | - | - | - | 5,000 |
| **Transfer of fair value of reserves on warrant exercises** | - | 1,200 | (1,200) | - | - | - |
| **Net loss for the year** | **-** | **-** | **-** | **-** | **(47,920)** | **(47,920)** |
| **Balance at September 30, 2012** | **9,201,000** | **$ 660,343** | **$ 67,059** | **$ -** | **$ (571,360)** | **$ 156,042** |

The accompanying notes are an integral part of these financial statements

**Minerva Minerals Limited**
**Statements of Cash Flows**
(Expressed in Canadian dollars)

| For the years ended September 30, | 2012<br>$ | 2011<br>$ |
|---|---|---|
| | | (Note 3) |
| **Operating activities** | | |
| Net loss | **(47,920)** | (117,968) |
| Change in non-cash working capital | | |
| Trade and other receivables | **(218)** | 727 |
| Trade and other payables | **2,967** | (38,286) |
| Due to related party | **-** | (17,560) |
| Cash used in operating activities | **(45,171)** | (173,087) |
| **Financing activities** | | |
| Issuance of common shares, net of issue costs | **5,000** | 373,120 |
| Cash provided from financing activities | **5,000** | 373,120 |
| **Increase (Decrease) in cash** | **(40,171)** | 200,033 |
| **Cash, beginning of year** | **201,585** | 1,552 |
| **Cash, end of year** | **161,414** | 201,585 |

**Supplementary Information**

| | | |
|---|---|---|
| Interest paid | - | - |
| Income tax paid | - | - |

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

Minerva Minerals Limited ("the Company") was incorporated on June 5, 2006 under the Canada Business Corporations Act. The Company’s head office is located at 204-3540 West 41st Avenue Vancouver, British Columbia, V6N 3E6. The shares of the Company are listed on the Canadian National Stock Exchange (“the CNSX”), and commenced trading on August 13, 2007. The Company is in the business of location, acquisition, exploration and development of mineral properties.

Management of the Company plans to devote its efforts to locate, acquire and explore mineral properties with potential reserves. To date, the Company has not determined whether properties acquired contain ore reserves that are economically recoverable, has yet to commence significant exploration work and is considered to be in the exploration stage.

The Company’s ability to continue to operate and to meet its obligations as they come due is dependent upon its ability to obtain additional financing as necessary and to successfully develop its existing mineral property interests or one or more alternative investments. The continued development of the Company’s Ashcroft and Lone Tree Showing Property is uncertain as explained in Note 12. The ultimate outcomes of these matters cannot presently be determined because they are contingent on future events.

As at September 30, 2012, the Company had working capital of $156,042 (2011 – $198,962), had not yet achieved profitable operations, had accumulated losses of $571,360 (2011 - $523,440) and expects to incur further losses in the development of its business, all of which casts substantial doubt upon the Company’s ability to continue as a going concern.

The business of exploring for minerals involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations. The Company's continued existence are dependent upon the preservation of its interest in the underlying properties, the discovery of economically recoverable reserves, the achievement of profitable operations, and the ability of the Company to raise alternative financing, if necessary, or alternatively upon the Company's ability to dispose of its interests on an advantageous basis. Changes in future conditions could require material write-downs of the carrying values.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, non-compliance with regulatory requirements or aboriginal land claims.

These financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying financial statements.

## 2. BASIS OF PRESENTATION

### 2.1 Statement of compliance

These audited financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The policies applied in these financial statements are based on IFRS issued and outstanding as of January 24, 2013, the date on which the Board of Directors approved the audited financial statements.

These are the Company's first IFRS annual financial statements for the year ended September 30, 2012. Previously, the Company prepared its annual financial statements in accordance with Canadian Generally Accepted Accounting Principles ("GAAP").

### 2.2 Basis of presentation

The audited financial statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies set out in Note 4.

### 2.3 Adoption of new and revised standards and interpretations

The IASB issued a number of new and revised International Accounting Standards, International Financial Reporting Standards, amendments and related interpretations which are effective for the Company's financial years beginning on or after October 1, 2011. For the purpose of preparing and presenting the financial information for the relevant periods, the Company has consistently adopted all these new standards for the relevant reporting periods.

At the date of authorization of these financial statements, the IASB and IFRIC have issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods:

- IFRS 7 '*Financial Instruments, Disclosures*' - effective for annual periods beginning on or after January 1, 2013, IFRS 7 has been amended to provide more extensive quantitative disclosures for financial instruments that are offset in the statement of financial position or that are subject to enforceable master netting similar arrangements.
- IFRS 9 '*Financial Instruments: Classification and Measurement*' – effective for annual periods beginning on or after January 1, 2015, with early adoption permitted, introduces new requirements for the classification and measurement of financial instruments.
- IFRS 10 '*Consolidated Financial Statements*' – effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities.
- IFRS 11 '*Joint Arrangements*' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form.
- IFRS 12 '*Disclosure of Interests in Other Entities*' - effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

## 2. BASIS OF PRESENTATION (continued)

### 2.3 Adoption of new and revised standards and interpretations (continued)

- IFRS 13 '*Fair Value Measurement'* **-** effective for annual periods beginning on or after January 1, 2013, with early adoption permitted, provides the guidance on the measurement of fair value and related disclosures through a fair value hierarchy.
- IAS 1 '*Presentation of Financial Statements'* - the IASB amended IAS 1 with a new requirement for entities to group items presented in other comprehensive income on the basis of whether they are potentially reclassifiable to profit or loss.
- IAS 12 '*Income Taxes*' – In December 2010, effective for annual periods beginning on or after January 1, 2012, IAS 12 Income Taxes was amended to introduce an exception to the existing principle for the measurement of deferred tax assets or liabilities arising on investment property measured at fair value. As a result of the amendments, SIC 21, *Income Taxes – recovery of revalued non-depreciable assets*, will no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC 21, which is withdrawn.
- IAS 19 '*Employee Benefits*' **-** effective for annual periods beginning on or after January 1, 2013, a number of amendments have been made to IAS 19, which included eliminating the use of the "corridor" approach and requiring remeasurements to be presented in OCI. The standard also includes amendments related to termination benefits as well as enhanced disclosures.
- IAS 27 '*Separate Financial Statements*' **-** effective for annual periods beginning on or after January 1, 2013, as a result of the issue of the new consolidation suite of standards, IAS 27 Separate Financial Statements has been reissued, as the consolidation guidance will now be included in IFRS 10. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements.
- IAS 28 '*Investments in Associates and Joint Ventures'* **-** effective for annual periods beginning on or after January 1, 2013, as a consequence of the issue of IFRS 10, IFRS 11and IFRS 12, IAS 28 has been amended and will provide the accounting guidance for investments in associates and to set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee
- IAS 32 '*Financial instruments, Presentation*' – In December 2011, effective for annual periods beginning on or after January 1, 2013, IAS 32 was amended to clarify the requirements for offsetting financial assets and liabilities. The amendments clarify that the right of offset must be available on the current date and cannot be contingent on a future date.

The Company has not early adopted these standards, amendments and interpretations; however, the Company is currently assessing what impact the application of these standards or amendments will have on the financial statements of the Company.

## 3. FIRST TIME ADOPTION OF IFRS

The Company has adopted IFRS on October 1, 2011 with a transition date of October 1, 2010. Under IFRS 1 *'First time Adoption of International Financial Reporting Standards'*, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP taken to retained earnings unless certain exemptions are applied.

The Company elected to take the following IFRS 1 optional exemptions:

- to apply the requirements of IFRS 3, *Business Combinations,* prospectively from the transition date;
- to apply the requirements of IFRS 2, *Share-based payments*, only to equity instruments granted after November 7, 2002 which had not vested as of the transition date; and
- to transfer all foreign currency translation differences, recognized as a separate component of equity, to deficit as at the transition date including those foreign currency differences which arise on adoption of IFRS.

(Expressed in Canadian dollars)

## 3. FIRST TIME ADOPTION OF IFRS (continued)

IFRS employs a conceptual framework that is similar to Canadian GAAP. The adoption has resulted in significant changes to the reported financial position, results of operations, and cash flows of the Company. Presented below are reconciliations prepared by the Company to reconcile to IFRS the assets, liabilities, equity, net loss and cash flows of the Company from those reported under Canadian GAAP:

Below is the Company's Statement of Financial Position as at the transition date of October 1, 2010 under IFRS.

**Reconciliation of assets, liabilities and equity**

| | As at October 1, 2010 | | | |
|---|---|---|---|---|
| | GAAP | Effect of transition to IFRS | IFRS | Notes |
| **Assets** | | | | |
| **Current Assets** | | | | |
| Cash | $ 1,552 | - | $ 1,552 | |
| Trade and other receivables | 2,333 | - | 2,333 | |
| | 3,885 | - | 3,885 | |
| **Exploration and evaluation expenditures** | 15,421 | (15,421) | - | (a) |
| | $ 19,306 | (15,421) | $ 3,885 | |
| **Liabilities** | | | | |
| **Current Liabilities** | | | | |
| Trade and other payables | $ 42,515 | - | $ 42,515 | |
| Due to related party | 17,560 | - | 17,560 | |
| | 60,075 | - | 60,075 | |
| **Equity** | | | | |
| **Capital stock** | 268,556 | - | 268,556 | |
| **Contributed surplus** | 80,726 | (80,726) | - | (b) |
| **Reserve for warrants** | - | 12,259 | 12,259 | (b) |
| **Reserve for share based payments** | - | 68,467 | 68,467 | (b) |
| **Accumulated deficit** | (390,051) | (15,421) | (405,472) | (a) |
| | (40,769) | (15,421) | (56,190) | |
| | $ 19,306 | (15,421) | $ 3,885 | |

(Expressed in Canadian dollars)

## 3. FIRST TIME ADOPTION OF IFRS (continued)

**Reconciliation of assets, liabilities and equity**

| | As at September 30, 2011 | | | | | |
|---|---|---|---|---|---|---|
| | | GAAP | Effect of transition to IFRS | | IFRS | Notes |
| **Assets** | | | | | | |
| **Current Assets** | | | | | | |
| Cash | $ | 201,585 | - | $ | 201,585 | |
| Trade and other receivables | | 1,606 | - | | 1,606 | |
| | | 203,191 | - | | 203,191 | |
| **Exploration and evaluation expenditures** | | 19,577 | (19,577) | | - | (a) |
| | $ | 222,768 | (19,577) | $ | 203,191 | |
| **Liabilities** | | | | | | |
| **Current Liabilities** | | | | | | |
| Trade and other payables | $ | 4,229 | - | $ | 4,229 | |
| | | 4,229 | - | | 4,229 | |
| **Equity** | | | | | | |
| **Capital stock** | | 654,143 | - | | 654,143 | |
| **Contributed surplus** | | 68,259 | (68,259) | | - | (b) |
| **Reserve for warrants** | | - | 68,259 | | 68,259 | (b) |
| **Accumulated deficit** | | (503,863) | (19,577) | | (523,440) | (a) |
| | | 218,539 | (19,577) | | 198,962 | |
| | $ | 222,768 | (19,577) | $ | 203,191 | |

(Expressed in Canadian dollars)

## 3. FIRST TIME ADOPTION OF IFRS (continued)

**Reconciliation of statement of loss and comprehensive loss**

| | Year ended September 30, 2011 | | | |
|---|---|---|---|---|
| | **GAAP** | **Effect of transition to IFRS** | **IFRS** | **Notes** |
| **Administrative Expenses** | | | | |
| Salaries, management and consulting fees | $ 75,600 | - | $ 75,600 | |
| Accounting, audit and legal | 19,266 | - | 19,266 | |
| Office, general and administration | 2,002 | - | 2,002 | |
| Public relations, filing, transfer and regulatory fees | 12,820 | - | 12,820 | |
| Exploration and evaluation expenditures | 4,124 | 4,156 | 8,280 | (a) |
| **Net loss and comprehensive loss** | $ 113,812 | 4,156 | $ 117,968 | |

(Expressed in Canadian dollars)

## 3. FIRST TIME ADOPTION OF IFRS (continued)

### Reconciliation of Cash Flows

| | Year ended September 30, 2011 | | | |
|---|---|---|---|---|
| | **GAAP** | **Effect of transition to IFRS** | **IFRS** | **Notes** |
| ***Operations*** | | | | |
| Net loss | $ (113,812) | (4,156) | $ (117,968) | (a) |
| Change in non-cash working capital | | | | |
| Trade and other receivables | 727 | - | 727 | |
| Trade and other payables | (38,286) | - | (38,286) | |
| Due to related party | (17,560) | - | (17,560) | |
| | (168,931) | (4,156) | (173,087) | |
| **Financing** | | | | |
| Issuance of capital stock, net of issue costs | 373,120 | - | 373,120 | |
| | 373,120 | - | 373,120 | |
| **Investing** | | | | |
| Evaluation and exploration expenditures | (4,156) | 4,156 | - | (a) |
| | (4,156) | 4,156 | - | |
| **Net increase in cash** | 200,033 | - | 200,033 | |
| Cash, beginning of period | 1,552 | - | 1,552 | |
| Cash, end of period | $ 201,585 | - | $ 201,585 | |

## 3. FIRST TIME ADOPTION OF IFRS (continued)

### Notes to Reconciliations

### a) Acquisition, exploration and evaluation expenditures

*Under Canadian GAAP* – Prior to 2012, the Company's accounting policy was to defer the cost of mineral properties and related exploration and development costs until the properties are placed into production, sold or abandoned. These costs would be amortized over the estimated useful life of the properties following the commencement of production. Cost includes both the cash consideration as well as the fair market value of any securities issued on the acquisition of mineral properties. Properties acquired under option agreements or joint ventures, whereby payments were made at the sole discretion of the Company, were recorded in the accounts at such time as the payments were made. The proceeds from property options granted reduced the cost of the related property and any excess over cost was applied to income.

*Under IFRS* – All exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop the property are capitalized into property, plant and equipment ("PPE"). On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated resources as the depletion base.

### b) Reserves

*Under Canadian GAAP* – Prior to 2011, the Company recorded the value of share based payments and warrants issued to contributed surplus.

*Under IFRS* – IFRS requires an entity to present for each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. IFRS requires a separate disclosure of the value that relates to "Reserves for warrants", "Reserves for share based payments" and any other component of equity.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

### 4.1 Mineral properties

All acquisition and exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into PPE. On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated resources as the depletion base.

### 4.2 Property, plant and equipment

Property, plant and equipment are stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

An item of PPE is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of comprehensive income.

The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for PPE and any changes arising from the assessment are applied by the Company prospectively.

Where an item of property, plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of property, plant and equipment. Expenditures incurred to replace a component of an item of property, plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

### 4.3 Decommissioning, restoration and similar liabilities (“Asset retirement obligation” or “ARO”)

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties and PPE, when those obligations result from the acquisition, construction, development or normal operation of the assets. Initially, a liability for an asset retirement obligation is recognized at its fair value in the period in which it is incurred. Upon initial recognition of the liability, the corresponding asset retirement obligation is added to the carrying amount of the related asset and the cost is amortized as an expense over the economic life of the asset using either the unit-of-production method or the straight-line method, as appropriate. Following the initial recognition of the asset retirement obligation, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 4.4 Share based payments

***Share based payment transactions***
Employees (including directors and senior executives) and consultants of the Company receive a portion of their remuneration in the form of share-based payment transactions, whereby employees and consultants render services as consideration for equity instruments ("equity-settled transactions").

In situations where equity instruments are issued and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment.

***Equity-settled transactions***
The costs of equity-settled transactions with employees and consultants are measured by reference to the fair value at the date on which they are granted.

The costs of equity-settled transactions are recognized, together with a corresponding increase in equity, over the period in which the performance and/or service conditions are fulfilled, ending on the date on which the relevant employees and consultants become fully entitled to the award (the "vesting date"). The cumulative expense is recognized for equity-settled transactions at each reporting date until the vesting date reflects the Company's best estimate of the number of equity instruments that will ultimately vest. The profit or loss charge or credit for a period represents the movement in cumulative expense recognized as at the beginning and end of that period and the corresponding amount is represented in share option reserve.

No expense is recognized for awards that do not ultimately vest, except for awards where vesting is conditional upon a market condition, which are treated as vesting irrespective of whether or not the market condition is satisfied provided that all other performance and/or service conditions are satisfied.

Where the terms of an equity-settled award are modified, the minimum expense recognized is the expense as if the terms had not been modified. An additional expense is recognized for any modification which increases the total fair value of the share-based payment arrangement, or is otherwise beneficial to the employee as measured at the date of modification.

The dilutive effect of outstanding options is reflected as additional dilution in the computation of earnings per share.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 4.5 Taxation

Income tax expense represents the sum of tax currently payable and deferred tax.

***Current income tax***
Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted by the date of the statement of financial position.

***Deferred income tax***
Deferred income tax is provided using the liability method on temporary differences at the date of the statement of financial position between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary differences, except:

• where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

• in respect of taxable temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward of unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

• where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

• in respect of deductible temporary differences associated with investments in subsidiaries, associates and interests in joint ventures, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at each date of the statement of financial position and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at each date of the statement of financial position and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 4.5 Taxation (continued)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the date of the statement of financial position.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statement of comprehensive income.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

### 4.6 Loss per share

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the year, if dilutive. The "treasury stock method" is used for the assumed proceeds upon the exercise of the options and warrants that are used to purchase common shares at the average market price during the year. During the years ended September 30, 2012 and 2011 all of the outstanding stock options and warrants were antidilutive.

### 4.7 Financial assets

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held for trading, available-for-sale, loans-and-receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. The Company's cash is classified as FVTPL.

Financial assets classified as loans-and-receivables and held-to-maturity are measured at amortized cost. The Company's trade and other receivables are classified as loans-and-receivables.

Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss) except for losses in value that are considered other than temporary. The Company has no investments classified as financial assets available-for-sale.

Purchases or sales of financial assets that require delivery of assets within a time frame established by regulation or convention in the marketplace (regular way trades) are recognized on the settlement date.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 4.8 Financial liabilities

All financial liabilities are initially recorded at fair value and designated upon inception as FVTPL or other-financial-liabilities.

Financial liabilities classified as other-financial-liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other-financial-liabilities are subsequently measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's trade and other payables are classified as other-financial-liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held-for-trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized through the statement of comprehensive income. At September 30, 2012, the Company has not classified any financial liabilities as FVTPL.

### 4.9 Impairment of financial assets

The Company assesses at each date of the statement of financial position whether a financial asset is impaired.

***Assets carried at amortized cost***

If there is objective evidence that an impairment loss on assets carried at amortized cost has been incurred, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows discounted at the financial asset's original effective interest rate. The carrying amount of the asset is then reduced by the amount of the impairment. The amount of the loss is recognized in profit or loss.

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 to the extent that the carrying value of the asset does not exceed what the amortized cost would have been had the impairment not been recognized. Any subsequent reversal of an impairment loss is recognized in profit or loss.

In relation to trade receivables, a provision for impairment is made and an impairment loss is recognized in profit and loss when there is objective evidence (such as the probability of insolvency or significant financial difficulties of the debtor) that the Company will not be able to collect all of the amounts due under the original terms of the invoice. The carrying amount of the receivable is reduced through use of an allowance account. Impaired debts are written off against the allowance account when they are assessed as uncollectible.

***Available-for-sale***

If an available-for-sale asset is impaired, an amount comprising the difference between its cost and its current fair value, less any impairment loss previously recognized in profit or loss, is transferred from equity to profit or loss. Reversals in respect of equity instruments classified as available-for-sale are not recognized in profit or loss.

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 4.10 Impairment of non-financial assets

At each date of the statement of financial position, the Company reviews the carrying amounts of its tangible and intangible assets to determine whether there is an indication that those assets have suffered an impairment loss. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss (if any). Where it is not possible to estimate the recoverable amount of an individual asset, the Company estimates the recoverable amount of the cash-generating unit to which the assets belong.

Recoverable amount is the higher of fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset.

If the recoverable amount of an asset (or cash-generating unit) is estimated to be less than its carrying amount, the carrying amount of the asset (or cash-generating unit) is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income, unless the relevant asset is carried at a re-valued amount, in which case the impairment loss is treated as a revaluation decrease.

Where an impairment loss subsequently reverses, the carrying amount of the asset (cash-generating unit) is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years.

### 4.11 Cash

Cash in the statement of financial position comprise cash at banks.

### 4.12 Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

### 4.13 Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control or common significant influence, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties. Related party transactions that are in the normal course of business and have commercial substance are measured at the exchange amount.

(Expressed in Canadian dollars)

## 4. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### 4.14 Flow-through Shares

The obligation to renounce tax deductions at the time of issuance of flow-through shares is recorded as a liability in accordance with IAS 37, "Provisions, Contingent Liabilities and Contingent Assets" measured using a residual or a relative fair value method. This obligation is released into the statement of comprehensive income as a gain as and when the Company incurs qualifying expenditures (i.e. fulfilling its obligation to renounce tax attributes).

### 4.15 Significant accounting judgments and estimates

The preparation of these financial statements requires management to make judgments and estimates and form assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. On an ongoing basis, management evaluates its judgments and estimates in relation to assets, liabilities, revenue and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances as the basis for its judgments and estimates. Actual outcomes may differ from these estimates under different assumptions and conditions. The most significant estimates relate to asset retirement obligations; recoverability of trade and other receivables, valuation of deferred income tax amounts, impairment testing, and the calculation of share based payments, and warrants. The most significant judgments relate to recognition of deferred tax assets and liabilities, determination of the commencement of commercial production and the determination of the economic viability of a project.

## 5. CASH

The balance at September 30, 2012, consists of cash on deposit with major Canadian banks in general interest-bearing accounts totaling $161,414 (2011 - $201,585).

## 6. TRADE AND OTHER RECEIVABLES

The Company's trade and other receivables arise from harmonized sales tax ("HST") due from the Canadian government. These are broken down as follows:

| | As at, | | |
|---|---|---|---|
| | **September 30, 2012** | September 30, 2011 | October 1, 2010 |
| | **$** | $ | $ |
| HST receivable | **1,824** | 1,606 | 2,333 |
| **Total Trade and other receivables** | **$ 1,824** | $ 1,606 | $ 2,333 |

At September 30, 2012, the Company anticipates full recovery of these amounts and therefore no impairment has been recorded against these receivables. The credit risk on the receivables has been further discussed in Note 14.

The Company holds no collateral for any receivable amounts outstanding as at September 30, 2012.

(Expressed in Canadian dollars)

## 7. TRADE AND OTHER PAYABLES

Trade and other payables of the Company are principally comprised of amounts outstanding for trade purchases relating to exploration activities and amounts payable for operating and financing activities. The usual credit period taken for trade purchases is between 30 to 90 days.

The following is an aged analysis of the trade and other payables:

| | As at, | | |
|---|---|---|---|
| | **September 30, 2012** | September 30, 2011 | October 1, 2010 |
| | **$** | $ | $ |
| Less than 3 months | **7,196** | 4,229 | 42,515 |
| **Total Trade and Other Payables** | **$ 7,196** | $ 4,229 | $ 42,515 |

## 8. RELATED PARTY TRANSACTIONS

Certain corporate entities and consultants that are related to the Company's officers and directors or persons holding more than 10% of the issued and outstanding shares of the Company provide consulting and other services to Minerva. All transactions were conducted in the normal course of operations and are measured at the exchange amounts as follows:

During the year ended September 30, 2012, the Company incurred management fees of $Nil (2011 - $75,600) and accounting, audit and legal expenses of $12,000 (2011 - $Nil) to directors and officers of the Company.

## 9. SHARE CAPITAL

(a) Authorized share capital

The authorized share capital of the Company consists of an unlimited number of common shares with no par value.

(b) Changes in issued capital stock to September 30, 2012 were as follows:

| | Number of Shares | Amount $ |
|---|---|---|
| Balance, October 1, 2010 | 4,331,000 | 268,556 |
| Shares issued pursuant to public offering (i) | 400,000 | 60,000 |
| Shares issued pursuant to exercise of stock options | 420,000 | 75,600 |
| Reserve for share based payments transferred on exercise of stock options | - | 68,467 |
| Shares issued pursuant to public offering (ii) | 4,000,000 | 280,000 |
| Fair value of warrants on issued pursuant to public offering (ii) | - | (48,000) |
| Share issue costs | | |
| Broker warrants issued | - | (8,000) |
| Cash | - | (42,480) |
| Balance, September 30, 2011 | 9,151,000 | 654,143 |
| Shares issued pursuant to exercise of stock options | 50,000 | 5,000 |
| Reserve for warrants transferred on exercise of stock options | - | 1,200 |
| Balance, September 30, 2012 | 9,201,000 | 660,343 |

(Expressed in Canadian dollars)

## 9. SHARE CAPITAL (continued)

(i) On October 29, 2010, the Company completed a non-brokered private placement consisting of 400,000 common shares of the Company at a price of $0.15 per share to raise gross proceeds of $60,000.

(ii) On June 21, 2011, the Company closed a non-brokered private placement of 4,000,000 units (the "Units") at a price of $0.07 per Unit for proceeds of $280,000 (the "Private Placement"). Each Unit consists of one common share and one-half of one share purchase warrant (the "Warrants"); each whole Warrant entitles the holder to purchase one additional common share at a price of $0.10 per common share until June 21, 2012.

The Company paid fees totaling $42,480 and issued an aggregate 320,000 finder's warrants (the "Finder's Warrants") to finders who assisted with this placement, in accordance with regulatory policies. Each Finder's Warrant will entitle the holder to purchase one common share at a price of $0.10 per common share until June 21, 2012.

The fair value of the warrants of $48,000 and broker warrants of $8,000 was calculated using the Black-Scholes option pricing model with the following weighted average assumptions:

| | |
|---|---|
| Risk-free interest rate | 1.5% |
| Exercise price | $0.10 |
| Expected volatility | 100% |
| Expected life of warrants | 1 year |
| Expected dividend yield | Nil |

(c) Stock options

During the 2007 year, a stock option plan was approved by the directors and shareholders of the Company. The plan provides that the aggregate number of shares reserved for issuance is to be 10% of the total number of issued and outstanding common shares of the Company from time to time. These options vest immediately when issued, unless otherwise stated.

As at September 30, 2012, the Company had 920,100 (2011 – 915,100) options available for issuance under the plan. The options outstanding to purchase common shares are as follows:

| | Number Of Options | Weighted Average Exercise Price $ |
|---|---|---|
| Balance , October 1, 2010 | 420,000 | 0.18 |
| Options granted | - | - |
| Options exercised | (420,000) | 0.18 |
| Balance, September 30, 2011 and 2012 | - | - |

The Black-Scholes model, used by the Company to calculate option values, was developed to estimate fair value of freely tradable, fully transferable options without vesting restrictions, which significantly differs from the Company's stock option awards. This model also requires highly subjective assumptions, including expected volatility, risk free interest rate and expected life of the option, which greatly affect the calculated values.

(Expressed in Canadian dollars)

## 9. SHARE CAPITAL (continued)

(d) Warrants

As at September 30, 2012, the outstanding warrants to purchase common shares are as follows:

| | Number Of Warrants | Weighted Average Exercise Price $ |
|---|---|---|
| Balance , October 1, 2010 | - | - |
| Warrants issued | 2,320,000 | 0.10 |
| Balance, September 30, 2011 | 2,320,000 | 0.10 |
| Warrants exercised | (50,000) | 0.10 |
| Warrants expired | (2,270,000) | 0.10 |
| Balance, September 30, 2012 | - | - |

## 10. RESERVE FOR WARRANTS

Reserve for warrants is comprised of the following:

| | **September 30, 2012** | September 30, 2011 |
|---|---|---|
| Balance, beginning of the year | **$ 68,259** | $ 12,259 |
| Warrants issued on private placements | - | 56,000 |
| Fair value transferred on exercise of warrants | **(1,200)** | - |
| Balance, end of year | **$ 67,059** | $ 68,259 |

## 11. RESERVE FOR SHARE BASED PAYMENTS

Reserve for share based payments is comprised of the following:

| | **September 30, 2012** | September 30, 2011 |
|---|---|---|
| Balance, beginning of the year | **$ -** | $ 68,467 |
| Fair value transferred on exercise of options | - | (68,467) |
| Balance, end of year | **$ -** | $ - |

(Expressed in Canadian dollars)

## 12. EXPLORATION AND EVALUATION EXPENDITURES

The evaluation and exploration expenses for the Company are broken down as follows:

| | Years ended September 30 | | Cumulative to date * |
|---|---|---|---|
| | **2012** | 2011 | |
| Ashcroft 1 | **$ 4,124** | $ 4,124 | **$ 62,380** |
| Lone Tree Showing | **2,455** | 4,876 | **22,031** |
| **Exploration and evaluation expenditures** | **$ 6,579** | $ 8,280 | **$ 84,411** |

* Only properties currently under exploration are included in this figure.

**Ashcroft 1 Claim, B.C., Canada**

Effective June 6, 2006 the Company acquired a 100% mineral interest in a 491 hectare property located near Cache Creek in the Kamloops Mining Division, British Columbia for cash consideration of $100.

The claim is currently in good standing until June 14, 2013. Exploration expenditures of $8 per hectare, or payment in lieu of such expenditures, will be required to renew the claim beyond that date. During the year ended September 30, 2012, the Company incurred payments in lieu of exploration expenditures totalling $4,124 (2011 - $4,124), which was charged to operations.

**Lone Tree Showing, Claim Nos. 1, 2, 3 and 4, B.C., Canada**

Effective December 3, 2007 the Company acquired a 100% interest in the Lone Tree Showing claims, for cash consideration of $12,000. The four mineral claims, totaling 409 hectares are located directly to the west of the Ashcroft property near Cache Creek in the Kamloops Mining Division, British Columbia.

The claims are in good standing with renewal dates ranging from August 8, 2013 to November 17, 2013. Exploration expenditures of $4 per hectare, or payment in lieu of such expenditures, are required to renew the claim beyond the initial claim register dates (August 8, 2007 to November 17, 2007) for each of the second and third anniversary years, and $8 per hectare for each subsequent anniversary year. During the year ended September 30, 2012, the Company incurred payments in lieu of exploration expenditures totalling $2,455 (2011 - $4,157), which was charged to operations.

Ownership of mineral interests involves inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance histories of many mineral interests. The Company has investigated ownership of its mineral interests and, to the best of its knowledge, such ownership interests are in good standing.

## 13. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The board of directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company defines capital to include its shareholders' equity. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company's approach to capital management during the year ended September 30, 2012. The Company is not subject to externally imposed capital requirements.

The Company considers its capital to be equity, which is comprised of share capital, reserve accounts, and accumulated deficit, which as at September 30, 2012 totaled $156,042 (2011 - $198,962).

The Company's objective when managing capital is to obtain adequate levels of funding to support its exploration activities, to obtain corporate and administrative functions necessary to support organizational functioning and obtain sufficient funding to further the identification and development of mineral deposits. The Company raises capital, as necessary, to meet its needs and take advantage of perceived opportunities and, therefore, does not have a numeric target for its capital structure. Funds are primarily secured through equity capital raised by way of private placements. There can be no assurance that the Company will be able to continue raising equity capital in this manner.

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 invests all capital that is surplus to its immediate operational needs in short-term, liquid and highly rated financial instruments, such as cash, and short-term guarantee deposits, all held with a major Canadian financial institution.

## 14. FINANCIAL INSTRUMENTS

### Fair Value Hierarchy

Financial instruments recorded at fair value on the statement 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) 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 (i.e. as prices) or indirectly (i.e. derived from prices);

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

## 14. FINANCIAL INSTRUMENTS (continued)

### Fair Value

The Company has designated its cash as FVTPL, which is measured at fair value. Trade and other receivables are classified for accounting purposes as loans and receivables, which are measured at amortized cost which equals fair value. Trade and other payables are classified for accounting purposes as other financial liabilities, which are measured at amortized cost which also equals fair value. Fair values of trade and other receivables trade and other payables are determined from transaction values which were derived from observable market inputs. Fair values of these financial instruments are based on Level 2 measurements. As at September 30, 2012, the carrying and fair value amounts of the Company's financial instruments are approximately equivalent.

The Company’s risk exposures and the impact on the Company’s financial instruments are summarized below:

### Credit Risk

The Company's credit risk is primarily attributable to cash. The Company has no significant concentration of credit risk arising from operations.

The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions.

### Interest Rate Risk

The Company is not exposed to interest rate risk due to the short-term nature of its financial instruments.

### Liquidity Risk

The Company’s approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2012, the Company had current assets of $163,238 (2011 - $203,191) and current liabilities of $7,196 (2011- $4,229). All of the Company’s financial liabilities and receivables are subject to normal trade terms. The Company had current working capital as of September 30, 2012, of $156,042 (2011 – $198,962).

## 15. COMMITMENTS AND CONTRACTUAL OBLIGATIONS

The Company’s activities are subject to environmental regulation (including regular environmental impact assessments and permitting) in each of the jurisdictions in which its mineral properties are located. Such regulations cover a wide variety of matters including, without limitation, prevention of waste, pollution and protection of the environment, labour relations and worker safety. The Company may also be subject under such regulations to clean-up costs and liability for toxic or hazardous substances which may exist on or under any of its properties or which may be produced as a result of its operations. It is likely that environmental legislation and permitting will evolve in a manner which will require stricter standards and enforcement. This may include increased fines and penalties for non-compliance, more stringent environmental assessments of proposed projects and a higher degree of responsibility for companies, their directors and employees.

The Company has not determined and is not aware whether any provision for such costs is required and is unable to determine the impact on its financial position, if any, of environmental laws and regulations that may be enacted in the future due to the uncertainty surrounding the form that these laws and regulations may take.

(Expressed in Canadian dollars)

## 16. INCOME TAXES

### Deferred Income Tax Recovery

The Company's income tax provision differs from the amount resulting from the application of the Canadian statutory income tax rate. A reconciliation of the combined Canadian federal and provincial income tax rates with the Company's effective tax rates for the years ended September 30, 2012 and 2011 is as follows:

| | **2012** | 2011 |
|---|---|---|
| Combined statutory income tax rate | **26.9%** | 28.5% |
| Recovery of income taxes computed at statutory rates | **(13,000)** | (34,000) |
| Difference between current and deferred tax rates | **(9,000)** | 4,000 |
| Share issue costs | - | (11,000) |
| Tax benefits of losses and temporary differences not recognized | **22,000** | 41,000 |
| Income tax provision | - | - |

The Canadian statutory income tax rate of 26.9% (2011 – 28.5%) is comprised of the federal income tax rate at approximately 15.4% (2011 – 16.75%) and the provincial income tax rate of approximately 11.5% (2011 – 11.75%). The primary differences which give rise to the deferred tax recoveries at September 30, 2012 and 2011 are as follows:

| | **2012** | 2011 |
|---|---|---|
| ***Deferred tax assets*** | **$** | $ |
| Share issuance costs and other | **7,000** | 8,000 |
| Exploration and evaluation expenditures | **22,000** | 20,000 |
| Non-capital losses carried forward | **145,000** | 124,000 |
| | **174,000** | 152,000 |
| Less : tax benefits not recognized | **(174,000)** | (152,000) |
| Net deferred tax assets | - | - |
| ***Deferred tax liabilities*** | - | - |
| Net deferred tax liability | - | - |

The unamortized balance, for income tax purposes, of the share issuance fees and transaction costs amounts to approximately $25,000 (2011 - $34,000) and will be deductible in Canada over the next 3 (2011 – 4) years.

The Company has available for carry forward non-capital losses of $545,000 (2011 - $495,000) to offset future taxable income over the next 14 to 20 years.

In addition, at September 30, 2012, the Company had Cumulative Canadian Development Expenses and Canadian Exploration Expenses totaling approximately $85,000 (2011 - $78,000), which are deductible against future year's taxable income and have no expiry date.

The Company has not recognized the potential tax benefit of these tax losses and deductions, as the ability of the Company to realize that benefit is uncertain.