CANADIAN OREBODIES

**Financial Statements**

**January 31, 2014 and 2013**

**(expressed in Canadian dollars)**

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Canadian Orebodies Inc.

We have audited the accompanying financial statements of Canadian Orebodies Inc., which comprise the statement of financial position as at January 31, 2014, and the statements of operations and 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.



ACCOUNTING › CONSULTING › TAX
701 EVANS AVENUE, 8TH FLOOR, TORONTO ON, M9C 1A3
P: 416.626.6000 F: 416.626.8650 MNP.ca

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Canadian Orebodies Inc. as at January 31, 2014, 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 January 31, 2013 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 May 22, 2013.

MNP LLP

**Chartered Professional Accountants**
**Licensed Public Accountants**

Toronto, Ontario
May 28, 2014



MNP LLP

**Canadian Orebodies Inc.**
**Statements of Financial Position**
*As at January 31, 2014 and 2013*

| | 2014 | 2013 |
|---|---|---|
| **Assets** | | |
| **Current assets** | | |
| Cash and cash equivalents | $ 348,427 | $ 2,070,814 |
| Accounts receivable | 51,326 | 90,910 |
| Prepaid expenses | 11,205 | 15,315 |
| Exploration advances | 105,000 | 150,000 |
| Marketable securities *(note 3)* | 175,800 | 226,000 |
| | 691,758 | 2,553,039 |
| Mineral properties and deferred exploration costs *(note 4)* | 17,008,863 | 15,897,758 |
| **Total Assets** | $ 17,700,621 | $ 18,450,797 |
| **Liabilities** | | |
| **Current liabilities** | | |
| Accounts payable and accrued liabilities | $ 38,031 | $ 125,234 |
| Deferred premium on flow-through shares *(note 10)* | - | 318,600 |
| Due to related party *(note 11)* | 233,035 | 233,035 |
| | 271,066 | 676,869 |
| **Shareholders' Equity** | | |
| Share capital *(note 5)* | 20,629,680 | 20,597,180 |
| Contributed surplus *(note 6)* | 4,552,962 | 2,295,068 |
| Warrants *(note 7)* | 236,898 | 2,311,590 |
| Accumulated other comprehensive loss | (200,000) | (175,000) |
| Deficit | (7,789,985) | (7,254,910) |
| | 17,429,555 | 17,773,928 |
| **Total Equity and Liabilities** | $ 17,700,621 | $ 18,450,797 |

*See accompanying notes to the financial statements*

Approved by the Board

Signed: *"Gordon McKinnon"*

Director

Signed: *"Chris Hodgson"*

Director

**Canadian Orebodies Inc.**
**Statements of Operations and Comprehensive Loss**
*For the years ended January 31, 2014 and 2013*

| | 2014 | 2013 |
|---|---|---|
| **Expenses** | | |
| Management and administrative services *(note 11)* | $ 358,407 | $ 324,391 |
| Share based compensation *(note 6 and 11)* | 183,202 | 401,196 |
| Professional and consulting fees | 97,205 | 255,034 |
| Office and administration | 91,920 | 92,705 |
| Shareholder information | 79,375 | 195,841 |
| Representation and travel | 14,226 | 65,262 |
| Write-off (recovery) of mineral properties and deferred exploration expenditures | 14,352 | (34,674) |
| Interest income | (10,212) | (22,743) |
| Premium on flow-through shares income *(note 10)* | (318,600) | (438,650) |
| Investment loss | 25,200 | 146,400 |
| | 535,075 | 984,762 |
| **Net loss before other comprehensive loss** | (535,075) | (984,762) |
| **Comprehensive loss** | | |
| Items that will subsequently be reclassified to profit or loss: | | |
| Unrealized loss on available-for-sale marketable securities arising during the year | (25,000) | (350,000) |
| **Total comprehensive loss** | $ (560,075) | $ (1,334,762) |
| **Basic and diluted net loss per share** *(note 8)* | $ (0.003) | $ (0.008) |

*See accompanying notes to the financial statements*

**Canadian Orebodies Inc.**
**Statements of Cash Flows**
*For the years ended January 31, 2014 and 2013*

| | 2014 | 2013 |
|---|---|---|
| **Operating Activities** | | |
| **Net loss** | $ (535,075) | $ (984,762) |
| Items not affecting cash and cash equivalents from operating activities: | | |
| Interest income | (10,212) | (22,743) |
| Share based compensation | 183,202 | 401,196 |
| Write-off (recovery) of mineral properties and deferred exploration activities | 14,352 | (34,674) |
| Premium on flow-through shares income | (318,600) | (438,650) |
| Investment loss | 25,200 | 146,400 |
| **Changes in non-cash working capital items** | | |
| Accounts receivable | 39,584 | 253,633 |
| Prepaids and deposits | 4,110 | (8,542) |
| Accounts payable and accrued liabilities | (87,203) | (115,943) |
| Exploration advances | 45,000 | - |
| | (639,642) | (804,085) |
| **Financing Activities** | | |
| Issue of common shares | - | 6,010,000 |
| Exercise of warrants | - | 23,191 |
| Share issue costs | - | (226,832) |
| | - | 5,806,359 |
| **Investing Activities** | | |
| Mineral properties and deferred exploration expenditures | (1,092,957) | (4,640,943) |
| Interest income | 10,212 | 22,743 |
| **Net change in cash and cash equivalents** | (1,722,387) | 384,074 |
| **Cash and cash equivalents, beginning of year** | 2,070,814 | 1,686,740 |
| **Cash and cash equivalents, end of year** | $ 348,427 | $ 2,070,814 |
| **Supplemental cash flow information** | | |
| Issuance of common shares for property acquisition | $ 32,500 | $ 1,475,000 |

*See accompanying notes to the financial statements*

**Canadian Orebodies Inc.**
**Statements of Changes in Equity**
*For the years ended January 31, 2014 and 2013*

| | Share Capital | | Reserves | | | Deficit | |
|---|---|---|---|---|---|---|---|
| | Number of shares | Amount | Contributed surplus | Warrants | Accumulated other comprehensive (loss) income | Deficit | Total |
| **Balance, January 31, 2012** | **106,440,476** | **$ 12,233,921** | **$ 1,465,733** | **$ 2,098,379** | **$ 175,000** | **$ (6,270,148)** | **$ 9,702,885** |
| Private placements | 30,755,556 | 6,010,000 | - | - | - | - | 6,010,000 |
| Value of private placements attributed to warrants | - | (615,630) | - | - | - | - | (615,630) |
| Cost of issue of private placements | - | (261,409) | - | - | - | - | (261,409) |
| Issued for mineral properties | 25,150,000 | 3,955,500 | - | - | - | - | 3,955,500 |
| Exercise of warrants | 199,258 | 23,191 | - | - | - | - | 23,191 |
| Fair value of warrants issued | - | - | - | 650,207 | - | - | 650,207 |
| Fair value of warrants exercised | - | 8,857 | - | (8,857) | - | - | - |
| Fair value of warrants expired | - | - | 428,139 | (428,139) | - | - | - |
| Share-based compensation | - | - | 401,196 | - | - | - | 401,196 |
| Unrealized loss on marketable securities | - | - | - | - | (350,000) | 350,000 | - |
| Deferred premium on flow-through shares | - | (757,250) | - | - | - | - | (757,250) |
| Comprehensive loss for the year | - | - | - | - | - | (1,334,762) | (1,334,762) |
| **Balance, January 31, 2013** | **162,545,290** | **20,597,180** | **2,295,068** | **2,311,590** | **(175,000)** | **(7,254,910)** | **17,773,928** |
| Issued for mineral properties | 625,000 | 32,500 | - | - | - | - | 32,500 |
| Fair value of warrants expired | - | - | 2,074,692 | (2,074,692) | - | - | - |
| Share-based compensation | - | - | 183,202 | - | - | - | 183,202 |
| Unrealized loss on marketable securities | - | - | - | - | (25,000) | 25,000 | - |
| Comprehensive loss for the year | - | - | - | - | - | (560,075) | (560,075) |
| **Balance, January 31, 2014** | **163,170,290** | **$ 20,629,680** | **$ 4,552,962** | **$ 236,898** | **$ (200,000)** | **$ (7,789,985)** | **$ 17,429,555** |

*See accompanying notes to the financial statements*

## 1. Nature of operations

Canadian Orebodies Inc. (the "Company") was incorporated pursuant to the provision of the Business Corporations Act (of Alberta) on January 28, 2008 ("Inception Date"). On July 21, 2008, the Company was authorized to continue its operations from the jurisdiction of Alberta to Ontario. Its principal business activity is the exploration of mineral properties. The address of the Company's registered office is 141 Adelaide Street West, Suite 301, Toronto, Ontario M5H 3L5. The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of the amount shown for mineral properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development, and upon future profitable production or proceeds from disposition of such properties.

## 2. Significant Accounting Policies

### *(a) Basis of presentation*

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the IFRS Interpretations Committee ("IFRIC").

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

The financial statements were approved by the Board of Directors on May 28, 2014.

### *(b) Significant accounting estimates and judgements*

The preparation of these financial statements requires management to make judgments and estimates that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these judgments and estimates. The 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.

Significant assumptions about the future and other sources of judgments and estimates that management has made at the end of the reporting period that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

(i) The estimated value of the mineral properties and deferred exploration costs recorded in the statements of financial position;

## 2. Significant Accounting Policies - continued

### *(c) Financial instruments*

**Financial assets**

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or assets acquired or incurred principally for the purpose of being sold or repurchased in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

*Loans and receivables* - These assets are non derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

*Held to maturity investments* - These assets are non derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of operations and comprehensive loss.

*Available for sale* - These assets are non derivative financial assets not included in the above categories. They are carried at fair value with changes in fair value recognized in other comprehensive income. Where a decline in the fair value of an available for sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at the end of each reporting period. Financial assets are impaired when there is any objective evidence that the future cash flows associated with a financial asset or a group of financial assets have been negatively impacted. Different criteria to determine impairment are applied for each category of financial assets described above.

## 2. Significant Accounting Policies - continued

### *(c) Financial instruments - continued*

**Financial liabilities**

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the corresponding asset was acquired. The Company's accounting policy for each category is as follows:

*Fair value through profit or loss* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of being sold or repurchased in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in the statement of operations and comprehensive loss.

*Other financial liabilities* - This category includes all other financial liabilities, all of which are recognized at amortized cost.

The Company's financial instruments consist of the following:

| **Financial assets:** | **Classification:** |
|---|---|
| Cash and cash equivalents | Fair value through profit and loss |
| Accounts receivable | Loans and receivables |
| Marketable securities - equity securities | Available for sale |
| Marketable securities - share purchase warrants | Fair value through profit and loss |
| **Financial liabilities:** | **Classification:** |
| Accounts payable and accrued liabilities | Other financial liabilities |
| Due to related party | Other financial liabilities |

**Fair value hierarchy**

The Company classifies its financial instruments according to a three level hierarchy that reflects the significance of the inputs used in making the fair value measurements. The three levels of fair value hierarchy are as follows:

• Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
• Level 2 - Inputs other than quoted prices that are observable for assets or liabilities, either directly or indirectly; and
• Level 3 - Inputs for assets or liabilities that are not based on observable market data.

The Company's cash and cash equivalents and equity securities held as marketable securities are classified within level 1 of the fair value hierarchy and share purchase warrants held as marketable securities are classified within level 2 of the fair value hierarchy.

## 2. Significant Accounting Policies - continued

### *(d) Cash and cash equivalents*

Cash and cash equivalents include money market instruments which are readily convertible into cash or have maturities at the date of purchase of less than ninety days.

### *(e) Mineral properties and deferred exploration expenditures*

The Company is in the exploration stage with respect to its investment in mineral properties and accordingly follows the practice of capitalizing all costs relating to the acquisition of, exploration for, and development of mineral claims and crediting all proceeds received against the cost of the related claims. Such costs include, but are not limited to geological and geophysical studies, exploratory drilling, and sampling.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

The Company recognizes in income costs recovered on mineral properties when amounts received or receivable are in excess of the carrying amount.

All capitalized exploration and evaluation expenditures are monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that an exploration expenditure is not expected to be recovered, it is charged to the results of operations. Exploration areas where reserves have been discovered, but which require major capital expenditures before production can begin, are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is underway as planned.

### *(f) Income taxes*

Income tax on the profit or loss for the periods presented consists of current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity or other comprehensive income.

Current tax is recognized and measured at the amount expected to be recovered from or payable to the taxation authorities based on the income tax rates enacted or substantively enacted at the end of the reporting period and includes any adjustment to taxes payable in respect of previous years.

Deferred tax is recognized on any temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable earnings. Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period when the asset is realized and the liability is settled. The effect of a change in the enacted or substantively enacted tax rates is recognized either profit or loss and comprehensive income or loss or in equity depending on the item to which the adjustment relates.

## 2. Significant Accounting Policies - continued

### *(f) Income taxes - continued*

Deferred tax assets are recognized to the extent their future recovery is probable. At the end of each reporting period, deferred tax assets are reduced to the extent that it is no longer probable that sufficient taxable earnings will be available to allow all or part of the asset to be recovered.

### *(g) Flow-through shares*

The Company will from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenditures being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resources property exploration expenditures. The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

### *(h) Share issue costs*

Costs incurred for the issue of common shares and warrants are deducted from share capital and warrants respectively.

### *(i) Share-based payment transactions*

The share option plan allows the Company's employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share based payment expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

The fair value is measured at grant date and each tranche is recognized on a graded vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At the end of each reporting period, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

## 2. Significant Accounting Policies - continued

### *(j) Asset retirement obligation*

The operations of the Company are subject to regulations governing the environment, including future site restoration costs for mineral properties. The Company recognizes the fair value of a liability for an asset retirement obligation in the period in which it is incurred when a reasonable estimate of fair value can be made. If a reasonable estimate of fair value cannot be made in the period the asset retirement obligation is incurred, the liability is recognized when a reasonable estimate of fair value can be made.

The Company has determined that there are no asset retirement obligations or any other environmental obligations with respect to its mineral properties, and therefore no liability has been recognized in these financial statements.

### *(k) Loss per share*

Basic loss per share is calculated using the weighted average number of common shares outstanding during the period. Diluted loss per share is computed using the treasury stock method. Stock options and warrants outstanding are not included in the computation of diluted loss per share if their inclusion would be anti dilutive.

### *(l) Changes in accounting policies*

The IASB issued new standards and amendments effective for, and adopted in the current year. The adoption of the following accounting policies had no impact on the Company's financial statements:

(i) *IFRS 10, Consolidated Financial Statements ("IFRS 10"),* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 27 “Consolidated and Separate Financial Statements” and SIC 12 “Consolidated – Special Purpose Entities”.

(ii) *IFRS 11, Joint Arrangements ("IFRS 11"),* establishes principles for financial reporting by parties to a joint arrangement. IFRS 11 supersedes IAS 31 “Interests in Joint Ventures” and SIC 13 “Jointly Controlled Entities – Non Monetary Contributions by Venturers”.

(iii) *IFRS 12, Disclosure of Interest in Other Entities (“IFRS 12”),* applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity.

(iv) *IFRS 13, Fair Value Measurement ("IFRS 13"),* converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates 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 will be on an exit price.

## 2. Significant Accounting Policies - continued

### *(m) Future changes in accounting standards not yet adopted*

Standards issued but not yet effective up to the date of issuance of the Company's financial statements are listed below. The Company intends to adopt those standards when they become effective.

**IFRS 9 - Financial Instruments**

*IFRS 9, Financial Instruments ("IFRS 9")* was issued by the IASB on November 12, 2009 and will replace *IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39")*. IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018.

## 3. Marketable Securities

The following is a summary of the Company's marketable securities:

| | January 31, 2014 | January 31, 2013 |
|---|---|---|
| Equity securities | $ 175,000 | $ 200,000 |
| Share purchase warrants * | 800 | 26,000 |
| | **$ 175,800** | **$ 226,000** |

** Share purchase warrants expired subsequent to year end*

## 4. Mineral Properties and Deferred Exploration Expenditures

Management reviews property exploration costs to ensure deferred expenditures include only costs and projects that are eligible for capitalization. Specific changes to the Company's mineral property portfolio that occured during the year ended January 31, 2014 are as follows:

| | Belcher Islands Iron Project | Farley Lake Project | Lithium and Rare Metals Project | Trump & Hawkins Projects | Total |
|---|---|---|---|---|---|
| January 31, 2013 | $ 14,024,555 | $ - | $ 1,233,548 | $ 639,655 | $ 15,897,758 |
| Additions | 177,452 | 800,000 | 42,176 | 105,829 | 1,125,457 |
| Write-offs | - | - | (14,352) | - | (14,352) |
| **January 31, 2014** | **$ 14,202,007** | **$ 800,000** | **$ 1,261,372** | **$ 745,484** | **$ 17,008,863** |

### Belcher Islands Iron Project

On February 14, 2011 the Company entered into a non-arm’s length Purchase Agreement (the "Agreement") to acquire up to a 100% legal and beneficial interest in the Inuit Owned Lands Mineral Exploration Agreement (the "NTI Agreement") with Nunavut Tunngavik Incorporated ("NTI") which covers the Haig Inlet Iron Project with an area of approximately 2,685 hectares, located on the Belcher Islands, Nunavut, Canada (the “Property”). On June 15, 2011, the Company acquired an initial 10% interest in the Property, which was increased to 25% on June 15, 2012, and on November 5, 2012, the Company acquired the remaining 75% interest in the Property. In total, the Company issued 28,000,000 common shares valued at $4,759,500 under the Agreement and now holds a 100% interest in the Property. The vendors retain a 3% Gross Overriding Royalty ("GOR"), of which one-third can be purchased by the Company for a maximum of $3,000,000.

In addition to the lands acquired under the Agreement, the Company applied for and acquired from NTI additional Inuit Owned Land packages totalling 4,938 hectares and staked 29 claims covering 21,816 hectares of Municipal Land, bringing the total area of the Belcher Islands Iron Project to 29,439 hectares.

## 4. Mineral Properties and Deferred Exploration Expenditures - continued

### Farley Lake Project

On November 12, 2013, the Company executed an option agreement with Carlisle Goldfields Ltd. (TSX:CGJ) ("Carlisle") pursuant to which the Company was granted the option to acquire a 10% non-diluting interest in the mining claims and mining leases comprising the Farley Lake Mine Project located near the town of Lynn Lake, Manitoba, in which Carlisle held a 100% interest.

In order to acquire its interest in the property, the Company was required to incur aggregate exploration expenditures on the property of $800,000 by December 31, 2013 (completed). Upon the Company acquiring its interest, the parties entered into a joint venture agreement pursuant to which Carlisle shall incur all further expenditures on the property until it reaches commercial production. After the commencement of commercial production, the Company and Carlisle will be obligated to contribute funds to approved programs and budgets of the joint venture in proportion to their respective participating interests.

At any time prior to April 30, 2016, the Company shall be entitled to transfer such interest back to Carlisle upon 15 days prior written notice (the "Put Right") in exchange for the issuance to the Company of Carlisle shares with an aggregate value of $800,000, with each Carlisle share being valued at the greater of $0.10 per Carlisle share and the volume weighted average trading price of the Carlisle shares traded on the TSX for the twenty (20) days where transactions have been recorded on those shares immediately preceding the date of the Back-In Notice or Put Notice (the "Reference Price"). Further, at any time after December 31, 2014 and on or prior to April 30, 2016, Carlisle shall have the right (the "Back-In Right") to require that the Company transfer such interest back to Carlisle upon 15 days prior written notice to the Company, in exchange for the issuance to the Company of Carlisle Shares with an aggregate value of $800,000, with each Carlisle share being valued at the Reference Price, provided that if: (a) the Reference Price of Carlisle's shares for purposes of such issuance is less than the minimum price permissible by the TSX; or (b) such issuance would result in the issuance to the Company of a number of Carlisle Shares that would be equal to 10% or more of the outstanding Carlisle Shares, Carlisle shall not be permitted to exercise the Back-In Right.

### Lithium & Rare Metals

*Falcon Lake Property*

On November 20, 2009, the Company entered into an option agreement to acquire a 100% interest in various mining claims known as Falcon Lake and Barbara Lake Properties that make up its lithium and rare metals properties, for 1,600,000 shares of the Company valued at $160,000 and 1,600,000 warrants of the Company valued at $104,000, all of which were exercised. The vendor retains a 2% Net Smelter Return Royalty ("NSR") on the property, one-half of which can be purchased for $1,000,000.

During the year ended January 31, 2014, the Company wrote-off $14,252 from the Falcon Lake Property due to the decision to let two non-core claims lapse, rather than incur additional work to maintain them.

## 4. Mineral Properties and Deferred Exploration Expenditures - continued

*Zig Zag Property*

On March 3, 2010, the Company signed a property acquisition agreement with Ultra Lithium Inc. ("Ultra") and the underlying property owners (the "Owners") to acquire an 80% interest in 129 mining claim units located approximately 60 kilometers northeast of Armstrong, Ontario. On March 8, 2013, the Company made its final option payment to Ultra by issuing 125,000 shares valued at $17,500. The Company fulfilled its obligations under the option and acquired an 80% interest in the Zig Zag Property. The Owners retain a 2% NSR, one-half of which can be purchased by the Company for $1,000,000. Commencing on the fourth anniversary, the Company will be required to pay $10,000 per annum in pre-production royalties in either cash or shares.

On October 15, 2013, the Company acquired Ultra's remaining 20% interest in the Zig Zag Property in exchange for the issuance of 500,000 common shares of the Company, valued at $15,000.

**Hawkins Property**

The Hawkins property is comprised of 111 claim units covering 1,776 hectares located in the Hawkins and Walls Townships, approximately 200 kilometers east of Timmins.

**Trump Property (Webequie)**

*Trump Property*

On July 8, 2008, the Company announced it had entered into a letter of intent with Rainy Mountain Royalty Corp. ("Rainy Mountain", formally East West Resource Corporation) granting the Company the option to acquire an 80% legal and beneficial interest in 96 claim units comprising more than 1,536 hectares in the James Bay Lowlands. In order to earn its 80% legal and beneficial interest, the Company was required to:

1. Pay to Rainy Mountain $10,000 (paid);

2. Issue to Rainy Mountain an aggregate amount of 280,000 common shares of Orebodies (issued);

3. Commission a VTEM airborne survey on the property (completed);

4. Rainy Mountain will hold a 20% carried interest in the property until a Bankable Feasibility study is produced.

*Webequie Property*

On May 11, 2010, the Company completed a purchase and assumption agreement with Noble Mineral Exploration Inc. ("NOB", formerly Ring of Fire Resources Inc. and Hawk Uranium Inc.) whereby NOB acquired the 100% legal and beneficial interest in the Company’s eight 100% owned properties (subject to a 10% Net Profits Interest "NPI" retained by the Company), and 100% interest in the Company’s seven 50% owned properties (subject to a 10% NPI retained by

## 4. Mineral Properties and Deferred Exploration Expenditures - continued

*Webequie Property - continued*

the Company on the portion of those properties to be acquired by NOB, which would be converted to a 0.15% NSR if NOB's interest in those properties is reduced to less than 10% and therefore converted to a net smelter returns royalty) held through a joint venture with MacDonald Mines Exploration Ltd. and Temex Resources Corp. The Properties in total consist of 444 (100% owned) claim units comprising 7,104 hectares and 891 (50% owned) claim units comprising 14,256 hectares, all of which are located in the James Bay Lowlands 'Ring of Fire', Ontario. As consideration for the sale, the Company received 5,000,000 common shares of NOB, and 4,000,000 warrants of NOB to purchase shares at a price of $0.15 for four years valued at $547,400. The expiry can be accelerated in year three if the share price trades above $0.30 for 10 consecutive days and in year four if the share price trades above $0.40 for 10 consecutive days. These warrants expired subsequent to year end (note 3).

## 5. Share Capital

**Authorized share capital**

At January 31, 2014, the authorized share capital consisted of an unlimited number of common shares and the issued share capital amounted to $ 20,629,680. The common shares do not have a par value. All issued shares are fully paid.

**(a) Private Placement - June 28, 2012 and August 24, 2012**

On June 28, 2012 the Company closed the first tranche of a non-brokered private placement comprised of 8,700,000 flow-through units at a price of $0.20 per unit and 7,055,556 non flow-through units at $0.18 per unit for gross proceeds of $3,010,000.

On August 24, 2012 the Company closed a second and final tranche of a non-brokered private placement comprised of 5,000,000 flow-through units at a price of $0.20 per unit for gross proceeds of $1,000,000.

Each flow-through unit and non flow-through unit consists of one common share and one-half share purchase warrant. One whole share purchase warrant entitles the holder to purchase one common share of the Company at $0.30 per share for a period of 18 months from the date of issuance. The exercise date may be accelerated at the option of the Company, if the closing price on the TSX Venture Exchange exceeds $0.40 per share for a period of 20 consecutive trading days, commencing anytime after the date that is four months and one day after the closing date.

In connection with the private placement, the Company paid finders fees of $26,400 and issued 132,000 broker options. Each broker option entitles the holder to purchase one unit at a price of $0.18 per unit. Each unit consists of one common share and one-half share purchase warrant. One whole warrant entitles the holder to purchase one common share of the Company at $0.30 per share for a period of 18 months from the date of issuance.

Flow through premiums of $174,000 (June 28, 2012) and $52,250 (August 24, 2012) were recognized on these financings (note 10).

## 5. Share Capital - continued

### (b) Private Placement - December 4, 2012

On December 4, 2012 the Company closed a brokered private placement comprised of 10,000,000 flow-through units at a price of $0.20 per unit for gross proceeds of $2,000,000.

Each flow-through unit consists of one common share and one-half share purchase warrant. One whole share purchase warrant entitles the holder to purchase one common share of the Company at $0.30 per share for a period of 18 months from the date of issuance.

In connection with the private placement, the Company paid a commission of $114,000, legal fees of $39,550 and issued 570,000 broker options. Each broker option entitles the holder to purchase one unit at a price of $0.20 per unit. Each unit consists of one common share and one-half share purchase warrant. One whole warrant entitles the holder to purchase one common share of the Company at $0.30 per share for a period of 18 months from the date of issuance.

A flow-through premium of $531,000 was recognized on this financing (note 10).

### (c) Exercise of Warrants

No warrants were exercised during the year ended January 31, 2014. During the year ended January 31, 2013, a total of 199,258 share purchase warrants with exercise prices ranging from $0.09 to $0.18 per share were exercised for gross proceeds aggregating $23,191. The fair value attributed to these warrants was $8,857.

## 6. Share Options

The Company has a Share Option Plan (the "Plan") under which it is authorized to grant options to purchase common shares of the Company to directors, senior officers, employees and/or consultants of the Company. The aggregate number of shares of the Company which may be issued and sold under the Plan will not exceed 10% of the total number of common shares issued and outstanding from time to time. Share options are granted with a maximum term of five years with vesting requirements at the discretion of the Board of Directors.

The Company records a charge to the statements of operations and comprehensive loss using the Black-Scholes fair valuation option pricing model with respect to a share option grant. The valuation is dependent on a number of estimates, including the risk free interest rate, the level of share volatility, together with an estimate of the level of forfeiture. The level of share volatility is calculated with reference to the historic traded daily closing share price at the date of issue.

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate, and therefore the existing models do not necessarily provide a reliable measure of the fair value of the Company's share purchase options.

## 6. Share Options - continued

The following table reflects the continuity of share options for the years ended January 31, 2013 and 2014:

| | Options | Weighted Avg. Exercise Price |
|---|---|---|
| Balance, January 31, 2012 | 6,200,000 | 0.17 |
| Granted | 2,125,000 | 0.25 |
| Balance, January 31, 2013 | 8,325,000 | 0.19 |
| Granted | 3,125,000 | 0.10 |
| Expired | (2,675,000) | 0.17 |
| **Balance, January 31, 2014** | **8,775,000** | **0.16** |

On April 5, 2012, as part compensation for investor relations consulting services the Company granted 400,000 share options exercisable at $0.25 per share for a period of two years from the date of issuance. Of the share options granted, 100,000 share options vested after three months, 100,000 share options vested after six months, 100,000 share options vested after nine months, and the remaining 100,000 share options vested after twelve months. The value ascribed to the 400,000 share options granted was estimated at $44,520 using the Black-Scholes model for option pricing. The assumptions used to determine the value were: expected dividend yield - 0%; weighted expected volatility - 103%; risk-free interest rate - 1.24% and an expected life of 2 years. As at January 31, 2014, all of these options were fully vested.

On May 22, 2013, the Company granted to Directors, Officers and consultants of the Company 3,125,000 share options vesting immediately, and exercisable at $0.10 per share for a period of five years from the date of issuance. The value ascribed to the 3,125,000 share options granted was estimated at $181,250 using the Black-Scholes model for option pricing. The assumptions used to determine the value were: expected dividend yield - 0%; weighted expected volatility - 130%; risk-free interest rate - 1.38% and an expected life of 5 years.

The following table reflects the actual share options issued and outstanding as at January 31, 2014.

| | Options | Exercise Price | Expiry Date |
|---|---|---|---|
| * | 400,000 | $ 0.250 | April 5, 2014 |
| | 1,000,000 | 0.100 | September 17, 2014 |
| | 1,625,000 | 0.100 | July 28, 2015 |
| | 925,000 | 0.335 | March 24, 2016 |
| | 200,000 | 0.265 | August 5, 2016 |
| | 1,500,000 | 0.250 | April 5, 2017 |
| | 3,125,000 | 0.100 | May 22, 2018 |
| | **8,775,000** | **$ 0.161** | |

** Expired subsequent to year end*

## 7. Warrants

A summary of the Company's outstanding warrants, for the year ended January 31, 2014 and year ended January 31, 2013 are as follows:

| | January 31, 2014 | January 31, 2013 |
|---|---|---|
| Balance, beginning of year | 30,424,914 | 16,036,394 |
| Issued | - | 16,079,778 |
| Exercised | - | (199,258) |
| Expired | (22,354,914) | (1,492,000) |
| **Balance, end of year** | **8,070,000** | **30,424,914** |

The exercise price and expiry date of the warrants outstanding as at January 31, 2014 are as follows:

| | Warrants | Exercise Price | Type | Expiry Date |
|---|---|---|---|---|
| * | 2,500,000 | $ 0.300 | Warrants | February 24, 2014 |
| | 5,000,000 | 0.300 | Warrants | June 4, 2014 |
| | 570,000 | 0.200 | Finder's unit | June 4, 2014 |
| | **8,070,000** | **$ 0.293** | | |

** Expired subsequent to year end*

## 8. Loss Per Common Share

The following table sets forth the computation of basic and diluted earnings per share for the years ended January 31, 2014 and 2013.

| | 2014 | 2013 |
|---|---|---|
| Loss attributable to common shareholders | $ (535,075) | $ (984,762) |
| Weighted-average common shares outstanding - basic and diluted | 162,857,790 | 128,884,875 |
| **Basic and diluted loss per common share** | **$ (0.003)** | **$ (0.008)** |

Diluted loss per share did not include the effect of the share options and warrants outstanding respectively as their effect was anti-dilutive.

## 9. Income Taxes

*(a) Income taxes*

The following table reconciles the expected income tax recovery at the combined Canadian Federal and Provincial statutory rates to the amount recognized in the statements of operations and comprehensive loss:

| | 2014 | 2013 |
|---|---|---|
| Loss before recovery of deferred income taxes | $ (535,075) | $ (984,762) |
| Expected income tax recovery | $ (141,790) | $ (263,010) |
| Tax rate changes and other adjustments | (232,520) | (50,600) |
| Non-deductible expenses | 57,840 | 47,870 |
| Effect of flow-through renunciation | 328,400 | 1,141,260 |
| Flow-through share premium | (84,430) | (117,160) |
| Mining tax credits | - | (6,390) |
| Change in tax benefits not recognized | 72,500 | (751,970) |
| **Income tax recovery reflected in the statements of operations and comprehensive loss** | **$ -** | **$ -** |

*(b) Deferred tax*

The following table summarizes the components of deferred tax:

| | 2014 | 2013 |
|---|---|---|
| Deferred tax assets | | |
| Non-capital losses carried forward | $ 867,930 | $ 638,820 |
| Share issuance costs | 146,400 | - |
| Mining tax credits | 29,380 | 71,680 |
| | 1,043,710 | 710,500 |
| Deferred tax liabilities | | |
| Mineral properties | (1,043,710) | (710,500) |
| **Net deferred income tax liabilities** | **$ -** | **$ -** |

*(c) Movement in net deferred tax liabilities*

| | 2014 | 2013 |
|---|---|---|
| Recognized in profit and loss | $ - | $ (25,000) |
| Recognized in other comprehensive income | - | 25,000 |
| **Balance, end of year** | **$ -** | **$ -** |

## 9. Income Taxes - continued

*(d) 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 deductible temporary differences:

| | 2014 | 2013 |
|---|---|---|
| Mining tax credits | $ 470,910 | $ 240,400 |
| Other temporary differences | 376,560 | 326,360 |
| Share issuance costs | - | 820,900 |
| | **$ 847,470** | **$ 1,387,660** |

Investment tax credits expire in 2032 and 2033. The remaining deductible temporary differences 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.

*(e) Non-capital losses carried forward*

The non-capital losses expire as follows:

| | |
|---|---|
| 2029 | $ 67,900 |
| 2030 | 79,740 |
| 2031 | 67,900 |
| 2032 | 953,130 |
| 2033 | 1,241,970 |
| 2034 | 864,550 |
| | **$ 3,275,190** |

## 10. Deferred Premium on Flow-through Shares

The premium paid for flow-through shares in excess of the market value of the shares without the flow-through features is initially recognized as a liability. The liability is reduced and the reduction of premium liability is recorded in loss from operations on a pro-rata basis based on the corresponding eligible expenditures that have been incurred when it is the Company's intention to file the appropriate renunciation forms with the Canadian taxation authorities. Accordingly, during the year ended January 31, 2014, $Nil (2013 - $318,600) was deferred and $318,600 (2013 - $438,650) was recognized as income in the statements of operations and comprehensive loss.

## 10. Deferred Premium on Flow-through Shares - continued

As at January 31, 2014, the Company has no outstanding flow-through expenditure commitments.

| | |
|---|---|
| **Balance, January 31, 2012** | **$ -** |
| Private placement - June 28, 2012 | 174,000 |
| Private placement - August 24, 2012 | 52,250 |
| Private placement - December 4, 2012 | 531,000 |
| Premium recognized in loss from operations | (438,650) |
| **Balance, January 31, 2013** | **318,600** |
| Premium recognized in loss from operations | (318,600) |
| **Balance, January 31, 2014** | **$ -** |

## 11. Related Party Transactions

### (a) Director and Executive Management Compensation

Directors and executive management's compensation for the year ended January 31, 2014 and 2013 consisted of the following:

| | **2014** | **2013** |
|---|---|---|
| Cash compensation | $ 348,000 | $ 207,000 |
| Fair value of stock options | 178,350 | 311,850 |
| | **$ 526,350** | **$ 518,850** |

Directors and executive management received the following stock options during the year ended January 31, 2014:

| **Expiry date** | **Number of options** | **Exercise price** | **Stock price at grant** | **Risk-free interest rate** | **Expected life** | **Volatility factor** | **Fair value** |
|---|---|---|---|---|---|---|---|
| May 22, 2018 | 3,075,000 | $ 0.100 | $ 0.070 | 1.38 % | 5.0 | 130 % | $ 0.058 |

## 11. Related Party Transactions - continued

### (b) Director and Executive Management Transactions

The aggregate value of transactions and outstanding balances relating to entities over which directors and executive management have control or significant influence were as follows:

| Account | Note | Transaction value Year ended January 31, 2014 | 2013 | Balance outstanding as at January 31, 2014 | 2013 |
|---|---|---|---|---|---|
| Mineral properties & deferred exploration costs | (i,ii) | $ 15,164 | $4,976,836 | $ - | $ - |
| Due to related party | (iii) | - | - | 233,035 | 233,035 |
| | | **$ 15,164** | **$4,976,836** | **$ 233,035** | **$ 233,035** |

(i) During the year ended January 31, 2014, the Company incurred exploration costs aggregating $15,164 (2013 - $1,388,784) to Cyr Drilling International Inc., a drilling company controlled by Gordon Cyr, a director of the Board. These services were incurred in the normal course of operations for the Company's exploration program at the Belcher Islands Iron Project. All services were made on terms equivalent to those that prevail with arm's length transactions.

(ii) During the year ended January 31, 2013, the Company issued 25,000,000 shares valued at $3,919,500 to acquire the Belcher Islands Iron Project, as described in note 4. Of this total, 11,250,000 shares valued at $1,763,775 were issued to Gordon McKinnon, the Chief Executive Officer and a director of the Board, and 11,250,000 shares valued at $1,763,775 were issued to Donald McKinnon, who at that time was a director of the Board.

(iii) The Company has a loan from 695202 Ontario Limited, a corporation controlled by a relative of Gordon McKinnon, the Chief Executive Officer and a director of the Board, in the amount of $233,035 and is due on demand as at January 31, 2014. The loan is interest free and unsecured.

## 12. Capital Risk Management

The Company's capital is composed of shareholders' equity. 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 properties in which the Company currently has an interest are in in the exploration stage; as such the Company is dependent on external financing to fund its activities. 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.

## 12. Capital Risk Management - continued

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 January 31, 2014. The Company is not subject to externally imposed capital requirements.

**Financial Risk Factors**

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

***(a) Credit risk***

The Company's credit risk is primarily attributable to accounts receivable which consist primarily of Harmonized Sales Tax receivable. The Company has no significant concentration of credit risk arising from operations. Management believes that the credit risk concentration with respect to financial instruments included in accounts receivable is remote.

***(b) Liquidity risk***

The Company is currently in the exploration stage and has not commenced commercial operations. As at the date of issue of these financial statements, the Company has an accumulated deficit of $ 7,789,985.

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to fund its liabilities as they become due. As at January 31, 2014, the Company is not yet generating operating cash flows, but has a working capital of $ 420,692. Within this amount, it has a cash balance of $ 348,427 (January 31, 2013: $ 2,070,814) to settle current liabilities of $ 271,066 (January 31, 2013: $ 676,869). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company will be required to obtain additional capital to continue its progress toward recovering the carrying amount of its mineral properties, and although success in this regard is not assured, management is of the opinion that additional capital can be raised as required for the foreseeable future.

***(c) Market risk***

*(i) Interest rate risk*

The Company has cash balances and no interest-bearing debt. Interest rate risk is remote.

*(ii) Price risk*

The Company is indirectly exposed to price risk with respect to the price of base metals. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company. Price risk is remote since the Company is not a producing entity.

## 12. Capital Risk Management - continued

*(ii) Price risk - continued*

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

### *(d) Fair Value*

The fair values of the Company's cash and cash equivalents, accounts receivable and accounts payables approximate their carrying values because of the short term-nature of these instruments.

### *(e) Sensitivity analysis*

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are "reasonably possible" over a twelve month period. The Company's investments in public companies are sensitive to a plus or minus 50% change in Canadian equity prices which would affect comprehensive income (loss) by approximately $87,900.

## 13. Subsequent Events

On April 28, 2014 the Company exercised its Put Right (as described in note 4) to transfer its 10% interest in the Farley Lake Project back to Carlisle Goldfields Ltd. ("Carlisle") in exchange for 8,000,000 common shares in Carlisle ("Carlisle Shares"). On May 1, 2014 the Company received the Carlisle Shares which had an aggregate value of $400,000, and are subject to a four month hold period expiring on September 2, 2014.

On April 28, 2014 the Company granted incentive stock options to Directors, Officers and consultants of the Company in the aggregate amount of 4,925,000 under the terms of the incentive stock option plan of the Company. The options are exercisable at a price of $0.05 per share for a period of five years and are subject to a four month hold period from the date of issuance thereof.