# FAIRMONT RESOURCES INC.

**Condensed Interim Financial Statements**

**For the three and nine months ended**
**July 31, 2013 and 2012**

**Expressed in Canadian Dollars**

**NOTICE OF NO AUDITOR REVIEW**
**OF THE CONDENSED INTERIM FINANCIAL STATEMENTS**
**FOR THE THREE AND NINE MONTHS ENDED JULY 31, 2013**

The accompanying unaudited condensed interim financial statements of Fairmont Resources Inc. (the "Company") for the period ended July 31, 2013, have been prepared by, and are the responsibility of, the Company's management.

The Company's independent auditor has not performed a review of these condensed interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of the condensed interim statements by an entity's auditor.

**FAIRMONT RESOURCES INC.**

**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**

**Unaudited - Prepared by Management**

**(Expressed in Canadian Dollars)**

| | July 31, 2013 | October 31, 2012 |
|---|---|---|
| **ASSETS** | | |
| CURRENT | | |
| Cash and cash equivalents (Note 4) | $ 7,092 | $ 249,160 |
| Amounts receivable | 7,651 | 31,648 |
| Prepaid expenses | 58,848 | 70,127 |
| TOTAL CURRENT ASSETS | 73,591 | 350,935 |
| Exploration and evaluation assets (Note 5) | 1,807,310 | 1,783,396 |
| TOTAL ASSETS | $ 1,880,901 | $ 2,134,331 |
| **LIABILITIES** | | |
| CURRENT | | |
| Accounts payable and accrued liabilities | $ 44,848 | $ 29,361 |
| Due to related parties (Note 8) | 100,481 | 79,217 |
| TOTAL CURRENT LIABILITIES | 145,329 | 108,578 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 6) | 3,318,679 | 3,306,679 |
| Equity reserves (Note 6) | 696,804 | 694,341 |
| Deficit | (2,280,911) | (1,975,267) |
| TOTAL SHAREHOLDERS' EQUITY | 1,735,572 | 2,025,753 |
| TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY | 1,880,901 | $ 2,134,331 |

Nature and continuance of operations (Note 1)

Approved on behalf of the Board:

"Greg Ball" — Director

"Neil Pettigrew" — Director

The accompanying notes are an integral part of these condensed interim financial statements

**FAIRMONT RESOURCES INC.**
**CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE LOSS**

Unaudited - Prepared by Management
(Expressed in Canadian Dollars)

| | Three months ended July 31, | | Nine months ended July 31, | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| EXPENSES | | | | |
| Administration | $ 7,500 | $ 12,214 | $ 22,500 | $ 31,214 |
| Advertising and promotion | - | 2,143 | - | 34,210 |
| Audit and accounting | 4,500 | 19,500 | 29,700 | 57,520 |
| Consulting | 7,500 | 6,000 | 22,500 | 33,750 |
| Exploration Expense | - | 2,681 | - | 10,785 |
| Insurance | - | - | - | 2,511 |
| Investor relations | 27,500 | 37,500 | 94,500 | 112,000 |
| Legal | 4,245 | 2,155 | 8,922 | 13,863 |
| Management | 23,500 | 26,101 | 85,500 | 73,268 |
| Office and miscellaneous | 2,894 | 1,876 | 10,889 | 9,567 |
| Rent | 2,990 | 8,250 | 10,166 | 19,750 |
| Registration and transfer fees | 418 | 3,745 | 18,592 | 20,784 |
| Share-based payments (Note 6) | 220 | 5,639 | 2,463 | 106,061 |
| Travel | (913) | 1,513 | 992 | 21,727 |
| Wages and benefits | - | 9,843 | (543) | 22,687 |
| Loss before other items and income taxes | (80,354) | (139,160) | (306,181) | (569,697) |
| Interest income | 73 | 1,174 | 537 | 4,438 |
| Other income on settlement of flow-through share premium liability | - | 10,014 | - | 53,008 |
| Comprehensive loss for the period | $ (80,281) | $(127,972) | $ (305,644) | $(512,251) |
| LOSS PER SHARE, basic and diluted | $ (0.02) | $ (0.03) | $ (0.06) | $ (0.11) |
| Weighted average number of shares outstanding | 5,056,632 | 4,950,108 | 5,007,343 | 4,517,079 |

The accompanying notes are an integral part of these condensed consolidated interim financial statements

# FAIRMONT RESOURCES INC.
## CONDENSED INTERIM STATEMENTS OF CASH FLOWS
**Unaudited - Prepared by Management**
**(Expressed in Canadian Dollars)**

| | Nine months ended July 31, 2013 | 2012 |
|---|---|---|
| **CASH FLOWS FROM OPERATING ACTIVITIES** | | |
| Net loss | $ (305,644) | $ (512,251) |
| Adjustments | | |
| Share-based payments | 2,463 | 106,061 |
| Other income on settlement of flow-through share premium liability | - | (53,008) |
| Changes in non-cash working capital items | | |
| Amounts receivable | 23,997 | 10,917 |
| Prepaid expenses | 11,279 | (5,432) |
| Accounts payable and accrued liabilities | 6,587 | 2,757 |
| Due to related parties | 20,638 | 32,386 |
| **Net cash used in operating activities** | (240,680) | (418,570) |
| **CASH FLOWS FROM FINANCING ACTIVITIES** | | |
| Issuance of shares | - | 516,500 |
| Share issuance cost | - | (50,901) |
| **Net cash from financing activities** | - | 465,599 |
| **CASH FLOWS FROM INVESTING ACTIVITIES** | | |
| Exploration and evaluation asset expenditures | (1,388) | (420,274) |
| **Net cash used in investing activities** | (1,388) | (420,274) |
| Change in cash and cash equivalents during the period | (242,068) | (373,245) |
| Cash and cash equivalents, beginning of the period | 249,160 | 826,159 |
| **Cash and cash equivalents, end of the period** | $ 7,092 | $ 452,914 |
| **SUPPLEMENTAL INFORMATION** | | |
| **NON CASH TRANSACTIONS** | | |
| Shares issued for exploration and evaluation asset (Note 5) | $ 13,000 | $ 24,000 |
| Finders units and warrants issued for private placement | $ - | $ 24,574 |
| Exploration and evaluation assets included in accounts payable and accrued liabilities | $ 8,900 | $ - |
| Exploration and evaluation assets included in due to related parties | $ 633 | $ 47,947 |

The accompanying notes are an integral part of these condensed interim financial statements

**FAIRMONT RESOURCES INC.**
**CONDENSED INTERIM STATEMENTS OF CHANGES IN EQUITY**
**FOR THE NINE MONTHS ENDED JULY 31, 2013 AND 2012**
**Unaudited - Prepared by Management**
**(Expressed in Canadian Dollars)**

| | Number of shares | Share Capital | Equity Reserves | Deficit | Total equity |
|---|---|---|---|---|---|
| Balance at October 31, 2011 | 4,051,775 | $2,833,908 | $ 548,124 | $(1,343,122) | $ 2,038,910 |
| Shares issued for exploration and evaluation assets | 37,500 | 24,000 | - | - | 24,000 |
| Private placement | 860,833 | 516,500 | - | - | 516,500 |
| Share issuance costs | - | (50,900) | - | - | (50,900) |
| Agent warrants issued as finders' fees | - | (24,579) | 24,579 | - | - |
| Share-based payments | - | - | 106,061 | - | 106,061 |
| Comprehensive loss for the period | - | - | - | (512,251) | (512,251) |
| Balance at July 31, 2012 | 4,950,108 | 3,298,929 | 678,764 | (1,855,373) | 2,122,320 |
| Shares issued for exploration and evaluation assets | 31,250 | 7,750 | - | - | 7,750 |
| Share based payments | - | - | 15,577 | - | 15,577 |
| Comprehensive loss for the period | - | - | - | (119,894) | (119,894) |
| Balance at October 31, 2012 | 4,981,358 | 3,306,679 | 694,341 | (1,975,267) | 2,025,753 |
| Adjustment to shares due to consolidation | 2 | - | - | - | - |
| Shares issued for exploration and evaluation assets | 100,000 | 13,000 | - | - | 13,000 |
| Share-based payments | - | - | 2,463 | - | 2,463 |
| Comprehensive loss for the period | - | - | - | (305,644) | (305,644) |
| Balance at July 31, 2013 | 5,081,360 | $ 3,319,679 | $ 696,804 | $(2,280,911) | $1,735,572 |

The accompanying notes are an integral part of these condensed interim financial statements

## 1. NATURE AND CONTINUANCE OF OPERATIONS

Fairmont Resources Inc. (the "Company") was incorporated on May 25, 2007 under the British Columbia Business Corporations Act as Strike Explorations Corp. On April 23, 2009, the Company changed its name to Fairmont Resources Inc. The Company's head office address is Suite 810 – 789 West Pender Street, Vancouver, BC V6C 1H2, Canada. The registered and records office address is Suite 704 – 595 Howe Street, Vancouver, BC V6C 2T5, Canada. The Company is listed on the TSX Venture Exchange under the symbol "FMR". The Company is primarily engaged in the acquisition, exploration and development of exploration and evaluation assets. At July 31, 2013, the Company had not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation assets and related deferred exploration costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production from the exploration and evaluation assets or proceeds from the disposition of the exploration and evaluation asset.

At July 31, 2013 and October 31, 2012, the Company had an accumulated deficit of $2,280,911 and $1,975,267 respectively, which has been funded by the issuance of equity. The Company expects to incur further losses in the development of its business, all of which cast significant doubt on the Company's ability to continue as a going concern. The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs. These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

| | July 31, 2013 | October 31, 2012 |
|---|---|---|
| Working capital | $ (71,738) | $ 242,357 |
| Deficit | $ (2,280,911) | $ (1,975,267) |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Statement of compliance and basis of presentation

These condensed interim financial statements, including comparatives, have been prepared in accordance with International Financial Accounts Standards ("IAS") 34, "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

These condensed interim financial statements have been prepared on a historical cost basis, except for certain financial instruments classified at fair value through profit or loss which are stated at their fair value. In addition, these condensed interim financial statements have been prepared using the accrual basis of accounting except for cash flow information.

These condensed interim financial statements of the Company are presented in Canadian dollars unless otherwise indicated, which is the functional currency of the Company.

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

b) Use of estimates

The preparation of condensed interim financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the condensed interim financial statements and the reported amount of expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of exploration and evaluation assets and deferred exploration costs, share-based payments and deferred tax valuation allowance.

Significant assumptions about the future and other sources of estimated uncertainty that management has made at the financial position reporting date, 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:

1) the carrying value and the recoverability of exploration and evaluation assets, which are included in the statements of financial position;

2) the inputs used in the accounting for the deferred tax assets / liabilities; and

3) the inputs used in the accounting for share-based payment expense included in profit or loss.

c) Cash and cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less when purchased, or which are redeemable at the option of the Company, to be cash equivalents.

d) Exploration and evaluation assets

Pre-exploration costs are expensed in the period in which they are incurred.

Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general and administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the farmee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to profit or loss.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

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

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as "mines under construction." Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

e) Income taxes

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

f) Impairment

The carrying amounts of the Company's non-financial assets, other than deferred tax assets if any, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. 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. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. An impairment loss is reversed if there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

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

g) Provision for closure and reclamation

The Company recognizes statutory, contractual or other legal obligations related to the retirement of its exploration and evaluation assets and its tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting costs are capitalized to the carrying value of the related asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the discounting of the underlying future cash flows. The capitalized asset retirement cost is amortized to operations over the life of the asset. Management has determined that there was no provision required for closure and reclamation as at July 31, 2013 and October 31, 2012.

h) Share-based payments

The Company applies the fair value method to share-based payments and all awards that are direct awards of stock, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. Compensation expense is recognized over the applicable vesting period with a corresponding increase in equity reserves. When the options are exercised, the exercise price proceeds together with the amount initially recorded in equity reserves are credited to share capital.

i) Basic and diluted loss per share:

Basic loss per share is computed by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of the diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the “if converted” method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method. Since the Company has losses the exercise of outstanding options and warrants has not been included in this calculation as it would be anti-dilutive.

j) 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 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 expenses being incurred, the Company derecognizes the liability and the premium is recognized as other income.

k) Share issue costs

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred financing costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred financing costs related to financing transactions that are not completed are charged to operations.

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

l) Financial instruments

Financial assets:

All financial assets are initially recorded at fair value and designated upon inception into one of the following four categories: held to maturity, 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 profit or loss. The Company's cash and cash equivalents are classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that provide objective evidence of impairment, which are recognized in earnings. The Company's receivables are classified as loans and receivables.

Transaction 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.

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 rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period or, where appropriate, a shorter period. The Company's financial liabilities consist of accounts payable, accrued liabilities and due to related parties, which 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 embedded derivatives, are also classified as held for trading and recognized at fair value with changes in fair value recognized in earnings unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss.

Impairment of financial assets:

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

For all financial assets objective evidence of impairment could include:

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

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

l) Financial instruments (continued)

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are 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 through profit or loss to the extent that the carrying amount of the investment at the date of impairment is reversed does not exceed what the amortized cost would have been had the impairment not be recognized.

m) Comparative figures

Certain comparative figures have been reclassified to conform with the current year's presentation.

## 3. ACCOUNTING STANDARDS ISSUED FOR ADOPTION IN FUTURE PERIODS

Accounting Standards issued and effective January 1, 2013

IFRS 10 – *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 – Consolidation – Special Purpose Entities and IAS 27 – Consolidated and Separate Financial Statements. The Company is currently evaluating the impact of IFRS 10 on its financial statements.

IFRS 11 – *Joint Arrangements* requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. The Company is currently evaluating the impact of IFRS 11 on its financial statements.

IFRS 12 *Disclosure of Involvement with Other Entities* 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.

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 Share-based Payment; leasing transactions within the scope of IAS 17 Leases; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

IAS 27 *Separate Financial Statements* has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

(Expressed in Canadian Dollars)

## 3. ACCOUNTING STANDARDS ISSUED FOR ADOPTION IN FUTURE PERIODS (continued)

IAS 28 *Investments in Associates and Joint Ventures* prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

Accounting Standards issued and effective January 1, 2015

IFRS 9 – Financial Instruments ("IFRS 9") will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. The Company is currently evaluating the impact the final standard is expected to have on its financial statements.

## 4. CASH AND CASH EQUIVALENTS

Cash and cash equivalents include a redeemable guaranteed investment certificate ("GIC") with an interest rate of prime minus 1.8% per annum and expiring on March 19, 2014. At July 31, 2013 and, October 31, 2012, the fair value of the GIC was $0 and $200,000 respectively. At July 31, 2013, there was $0 (October 31, 2012 - $1,299) in interest receivable that was also included as cash and cash equivalents.

## 5. EXPLORATION AND EVALUATION ASSETS

### Title to exploration and evaluation assets

Title to exploration and evaluation asset interests involve certain 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 conveyancing history characteristic of many mineral claims. The Company has investigated title to all of its exploration and evaluation assets and, to the best of its knowledge, title to all of its interests are in good standing. However, this should not be construed as a guarantee of title. The concessions may be subject to prior claims, agreements or transfers and rights of ownership may be affected by undetected defects.

### Clay and Powell Properties (Ontario)

On September 14, 2010, the Company entered into a Letter of Intent with Rainy Mountain Royalty Corp. and Mega Uranium Ltd. (the "Optionors") for an option to purchase a 70% undivided interest in certain mineral tenures comprising the Powell property and the Clay property (the "Properties") located near Thunder Bay, Ontario.

The Company may exercise the option by the issuance to the Optionors of 100,000 common shares in the capital stock of the Company, and by incurring a total of $1,000,000 in exploration and development expenditures on the properties as follows:

| Date of Completion | Number of Common Shares | Minimum Expenditures |
|---|---|---|
| Within 10 days of October 15, 2010 (shares issued at a value of $35,000) | 25,000 | $ - |
| Before October 15, 2011 (minimum expenditures of $250,000 incurred; shares issued at a value of $11,000) | 25,000 | 250,000 |
| Before October 15, 2012 (minimum expenditures of $250,000 incurred; shares issued at a value of $6,000) | 25,000 | 250,000 |
| Before October 15, 2013 (expenditures of $229,042 incurred) | 25,000 | 500,000 |
| | 100,000 | $ 1,000,000 |

(Expressed in Canadian Dollars)

## 5. EXPLORATION AND EVALUATION ASSETS (continued)

### Clay and Powell Properties (Ontario) (continued)

In the event that the Company decides to abandon the Option and the Properties, the Company will provide thirty days prior written notice and will provide payment of rental fees for a period of at least six months from the effective date of such abandonment.

Pursuant to the Letter of Intent, the Clay and Powell properties are subject to a 2% net smelter return ("NSR") royalty of which 1% can be purchased for $500,000 and the other 1% for $1,000,000. The Company and the Optionors will pay the amount in proportion to their respective interest in the Properties.

### Marmion South Contact Property (Ontario)

On January 7, 2011, the Company entered into a letter agreement with an arm's length party (the "Optionor") to earn a 100% interest in certain mineral claims known as the Marmion South Contact property. The property is located in the Thunder Bay Mining Division, Ontario. To acquire the 100% interest, the Company agreed to pay $320,000, issue a total of 187,500 common shares and incur a total of $1,500,000 in exploration expenditures.

On January 3, 2013, the original agreement was modified as reflected in the table below. A $60,000 payment that was due January 7 2013 was postponed to June 7, 2013 and in recompense on January 7, 2013 the Company issued 75,000 common shares (comprising 100% of the shares due on January 7, 2013 and 100% of the shares that are due on January 7, 2014).

On July 4, 2013, the original agreement was further modified as reflected in the table below. A $60,000 payment that was due June 7 was postponed to January 7, 2014 and in recompense on July 31, 2013, 25,000 common shares (consisting of 50% of the original 50,000 common shares that were due on January 7, 2015) were issued at a deemed price of $0.04 per common share.

| Date of Completion | Cash Payments | Number of Common Shares | Exploration Expenditures |
|---|---|---|---|
| By January 7, 2011 (paid) | $ 25,000 | - | $ - |
| On receiving approval from TSX Venture Exchange (issued at a value of $40,000) | - | 25,000 | - |
| By January 7, 2012 (cash payment of $40,000 made; minimum expenditures of $150,000 incurred; shares issued at a value of $24,000) | 40,000 | 37,500 | 150,000 |
| By January 7, 2013 (minimum expenditures of $250,000 made; shares issued at a value of $12,000) | - | 75,000 | 250,000 |
| By July 31, 2013 (shares issued at a value of $1,000) | - | 25,000 | - |
| By January 7, 2014 (minimum expenditures of $400,000 made; shares issued at a value of $6,000) (Note 6) | 135,000 | - | 400,000 |
| By January 7, 2015 (expenditures of $7,578 made) | 120,000 | 25,000 | 700,000 |
| | $ 320,000 | 187,500 | $ 1,500,000 |

The Company paid $13,000 as a finder's fee for the Marmion South Contact acquisition.

The property is subject to a 2.5% NSR royalty. The Company has the right to acquire 50% of the royalty at any time prior to the commencement of commercial production on the property for $1,000,000.

(Expressed in Canadian Dollars)

## 5. EXPLORATION AND EVALUATION ASSETS (continued)

### Houghton Creek Property (Ontario)

On July 25, 2012, the Company entered into a letter agreement with an arm's length party (the "Optionor") to earn a 100% interest in certain mineral claims known as the Houghton Creek property. The property is located in the Patricia Mining Division, Ontario. To acquire the 100% interest, the Company agreed to pay $22,000, issue a total of 56,250 common shares and incur a total of $150,000 in exploration expenditures.
On July 31$^{th}$, 2013, the original agreement was modified as per the table below. The $3,500 payment that was due July 25$^{th}$ was postponed to July 25, 2014 and in recompense a payment of 25,000 common shares (consisting of 100% of the original common shares, that were due on the first and second anniversary of the agreement, are to be issued by August 16, 2013. (Note 12)

| Date of Completion | Cash Payments | Number of Common Shares | Exploration Expenditures |
|---|---|---|---|
| By July 25, 2012 (paid) | $ 3,500 | - | $ - |
| By August 7, 2012 (issued at a value of $1,750) | - | 6,250 | - |
| By August 16, 2013 | - | 25,000 | - |
| By July 25, 2014 (expenditures of $50,000 incurred) | 8,500 | - | 50,000 |
| By July 25, 2015 | 10,000 | 25,000 | 100,000 |
| | $ 22,000 | 56,250 | $ 150,000 |

The property is subject to a 2% NSR royalty. The Company has the right to acquire 50% of the royalty at any time prior to the commencement of commercial production on the property for $1,000,000.

The following acquisition and deferred exploration costs were incurred on the Company's exploration and evaluation assets:

| **Current year** | Clay and Powell | Marmion South Contact | Houghton Creek | Total |
|---|---|---|---|---|
| Acquisition costs, October 31, 2012 | $ 52,000 | $ 142,000 | $ 12,036 | $ 206,036 |
| Additions during the period | - | 13,000 | - | 13,000 |
| Acquisition costs, July 31, 2013 | 52,000 | 155,000 | 12,036 | 219,036 |
| Deferred exploration costs, October 31, 2012 | 727,357 | 801,366 | 48,637 | 1,577,360 |
| Additions during the period | | | | |
| Administration | - | 3,575 | 1,788 | 5,363 |
| Assays | - | 344 | - | 344 |
| Field personnel and expenses | - | 60 | - | 60 |
| Geological consulting | 584 | 2,716 | 603 | 3,903 |
| Mapping | 1,100 | 144 | - | 1,244 |
| Deferred exploration costs, July 31, 2013 | 729,041 | 808,205 | 51,028 | 1,588,274 |
| Total exploration and evaluation assets, July 31, 2013 | $ 781,041 | $ 963,205 | $ 63,064 | $1,807,310 |

(Expressed in Canadian Dollars)

## 5. EXPLORATION AND EVALUATION ASSETS (continued)

| **Prior year** | Clay and Powell | Marmion South Contact | Houghton Creek | Total |
|---|---|---|---|---|
| Acquisition costs, October 31, 2011 | $ 46,000 | $ 78,000 | $ - | $ 124,000 |
| Additions during the year | 6,000 | 64,000 | 12,036 | 82,036 |
| Acquisition costs, October 31, 2012 | 52,000 | 142,000 | 12,036 | 206,036 |
| Deferred exploration costs, October 31, 2011 | 712,930 | 377,589 | - | 1,090,519 |
| Additions during the year | | | | |
| Administration | - | 8,773 | 1,223 | 9,996 |
| Assays | - | 17,548 | 3,152 | 20,700 |
| Core cutting | - | 7,575 | - | 7,575 |
| Drilling | - | 163,875 | - | 163,875 |
| Equipment rental | - | 15,161 | 6,619 | 21,780 |
| Field personnel and expenses | 1,068 | 36,218 | 7,826 | 45,112 |
| Geological consulting | 9,688 | 147,972 | 29,817 | 187,477 |
| Geophysical | 3,220 | 26,655 | - | 29,875 |
| Mapping | 451 | - | - | 451 |
| Additions during the year | 14,427 | 423,777 | 48,637 | 486,841 |
| Deferred exploration costs, October 31, 2012 | 727,357 | 801,366 | 48,637 | 1,577,360 |
| Total exploration and evaluation assets, October 31, 2012 | $ 779,357 | $ 943,366 | $ 60,673 | $ 1,783,396 |

## 6. SHARE CAPITAL

The authorized share capital consists of an unlimited number of common shares without par value.

On April 25, 2013 the Company proceeded with its proposed share consolidation on the basis of four (4) pre-consolidation common shares for one (1) post-consolidation common share. All common shares and per share amounts have been adjusted to give retroactive effect to the 4 for 1 consolidation that took place April 25, 2013.

On July 31, 2013 25,000 common shares were issued at a deemed price of $0.04 per common share in payment for the Marmion Contact property. (Note 5)

*Escrow Shares*

On April 15, 2013, 84,470 shares were released from escrow. At July 31, 2013 and October 31, 2012, pursuant to an escrow agreement dated December 10, 2009, Nil and 84,470 of the common shares issued and outstanding were held in escrow.

*Private Placements*

Nine months ended July 31, 2013

On January 7, 2013, the Optionor of the Marmion property agreed to defer the cash payment of $60,000 that was due on January 7, 2013 until June 7, 2013. In exchange the 37,500 shares that were to be issued on January 7, 2014 were issued on January 15, 2013 at the same time as the current years share issuance was made. In total, on January 7, 2013, 37,500 shares were issued to the optionor at a deemed price of $0.16 per share. (Note 5)

(Expressed in Canadian Dollars)

**6. SHARE CAPITAL (continued)**

Year Ended October 31, 2012

On March 15, 2012, the Company completed a Private Placement and issued a total of 860,833 units at a price of $0.60 per unit, for gross proceeds of approximately $516,500 (the "Private Placement"). Each unit under the Private Placement is comprised of one common share and one share purchase warrant, with each warrant entitling the holder to purchase one additional common share at a price of $0.80 per share until March 15, 2014. In connection with the Private Placement, the Company paid finders cash commissions totaling $50,900 and issued finders a total of 84,833 share purchase warrants valued at $24,579. Each finder's warrant is exercisable on the same terms described above and expires on March 15, 2014. The fair value of the finder's warrants was determined using the Black Scholes option pricing model with a volatility of 100%, risk free interest rate of 1.73%, expected life of 2 years, and a dividend rate of 0%.

**Stock options**

The Company has a rolling stock option plan under which it is authorized to grant options to directors, employees and consultants, to acquire up to 10% of the issued and outstanding shares. The exercise price of each option is based on the market price of the Company's stock at the date of grant. The options can be granted for a maximum term of 10 years and vest as determined by the board of directors.

The following table summarizes the stock option activity:

| | Number of Stock Options | Weighted Average Exercise Price |
|---|---|---|
| Balance at October 31, 2011 | 412,500 | $ 1.08 |
| Granted | 300,000 | 0.60 |
| Cancelled | (325,000) | 1.24 |
| Exercised | - | - |
| Balance at October 31, 2012 and July 31, 2013 | 387,500 | 0.60 |
| Exercisable at July 31, 2013 | 375,000 | 0.60 |

As at July 31, 2013, the following incentive stock options are outstanding:

| Number of Stock Options | Exercise Price | Expiry Date |
|---|---|---|
| 25,000 | $ 0.60 | September 25, 2013 |
| 25,000 | 0.60 | December 9, 2014 |
| 12,500 | 1.24 | November 3, 2015 |
| 50,000 | 0.46 | October 24, 2016 |
| 262,500 | 0.60 | February 8, 2017 |
| 12,500 | 0.60 | February 14, 2017 |
| 387,500 | | |

(Expressed in Canadian Dollars)

## 6. SHARE CAPITAL (continued)

### Share-based payments

For the nine months ended July 31, 2013, the total share-based payments calculated for stock options granted under the fair value method was $Nil (2012 - $123,928). For the nine months ended July 31, 2013, the Company expensed $2,463 (2012 - $106,061) for the vesting portion of the stock options to operations.

### Warrants

On March 4, 2013, 368,250 warrants at $2.80, 71,875 warrants at $1.60 and 409,375 warrants at $3.00 expired. On March 15, 2013, 83,750 warrants at $2.80 expired. The total number of warrants that expired during the period was 933,250.

The following table summarizes the warrants and agent warrants activity.

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| Balance at October 31, 2011 | 989,975 | $ 1.80 |
| Agents warrants | 84,833 | 0.80 |
| Private placement warrants | 860,833 | 0.80 |
| Expired warrants | (56,725) | 0.80 |
| Balance at October 31, 2012 | 1,878,916 | 1.33 |
| Expired warrants | (933,250) | 1.80 |
| Balance at July 31, 2013 | 945,666 | $ 0.80 |

As at July 31, 2013, there are a total of 945,666 warrants outstanding at an exercise price of $0.80 and they expire on March 15, 2014.

### Agent warrants

As at July 31, 2013, there are 84,833 agent warrants outstanding (included in the above total) at an exercise price of $0.80 and they expire on March 15, 2014.

## 7. FLOW-THROUGH SHARE PREMIUM LIABILITY

| | Amount |
|---|---|
| Balance at October 31, 2011 | $ 55,173 |
| Settlement of flow-through share liability upon expenditures being incurred | (55,173) |
| Balance at October 31, 2012 | - |
| Balance at July 31, 2013 | $ - |

On March 4, 2011, the Company completed the first tranche of a private placement which was comprised of 818,750 Flow-Through Units ("FT Unit") at $1.60 per FT Unit for gross proceeds of $1,210,000. The premium received on the shares issued was determined to be $163,750 and was recorded as a share capital reduction. An equivalent premium liability was recorded and reduced when the required exploration expenditures were incurred.

## 8. RELATED PARTY TRANSACTIONS

In the nine months ended July 31, 2013 and 2012 the following amounts were paid or accrued to related parties:

a) Paid or accrued $9,000 (2012 – $9,000) in management fees to a director of the Company.

b) Paid or accrued $76,500 (2012 – $49,268) in management fees to a company controlled by two directors of the Company.

c) Paid or accrued $nil (2012 - $15,000) in management fees to a director of the Company.

d) Paid or accrued $8,645 (2012 - $356,293) in deferred exploration expenses to a company controlled by two directors of the Company.

At July 31, 2013, $94,111 (October 31, 2012 - $78,848) in due to related parties was outstanding to a company controlled by two directors of the Company and $370 (October 31, 2012 - $369) in due to related parties was outstanding to an officer of the Company. At July 31, 2013, $6,000 (October 31, 2012 - $Nil) in due to related parties was outstanding a director of the Company. The amounts owing are unsecured, non-interest bearing and with no stated payment date.

The total remuneration for directors fees and to other key management personnel (included in amounts disclosed above) during the nine months ended July 31, 2013 and 2012 were $85,500 and $73,268 respectively.

## 9. CAPITAL MANAGEMENT

The Company considers its capital to be a component of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through debt and equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future.

There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

(Expressed in Canadian Dollars)

## 10. FINANCIAL INSTRUMENTS

a) Fair Values

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities and due to related parties. The fair values of these financial instruments approximate their carrying values because of their current nature.

The following table summarizes the carrying values of the Company's financial instruments:

| | July 31, 2013 | October 31, 2012 |
|---|---|---|
| Fair value through profit or loss (i) | $ 7,092 | $ 249,160 |
| Loans and receivables (ii) | $ 7,651 | $ 31,648 |
| Other financial liabilities (iii) | $ 145,329 | $ 108,578 |

(i) Cash and cash equivalents
(ii) Amounts receivable
(iii) Accounts payable and accrued liabilities and amounts due to related parties

The Company classifies its fair value measurements in accordance with the three level fair value hierarchy 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 the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
Level 3 – Inputs that are not based on observable market data.

The following table sets forth the Company's financial assets measured at fair value by level within the fair value hierarchy as follows:

| Assets | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $ 7,092 | - | - | $ 7,092 |

b) Credit Risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. To minimize the credit risk the Company places these instruments with a high credit quality financial institution.

## 10. FINANCIAL INSTRUMENTS (continued)

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined above.

The Company monitors its ability to meet its short-term exploration and administrative expenditures by raising additional funds through share issuances when required. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms. The Company does not have investments in any asset backed deposits.

d) Foreign Exchange Risk

The Company does not have significant foreign exchange risk as most of its transactions are in Canadian dollars.

e) Interest Rate Risk

The Company is not exposed to significant interest rate risk.

f) Price risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors the commodity prices of precious metals and the stock market to determine the appropriate course of action to be taken by the Company

## 11. SEGMENT INFORMATION

The Company conducts all of its business activities in Canada, in one reportable operating segment, being the acquisition and exploration of exploration and evaluation assets.

## 12. SUBSEQUENT EVENT

On August 16, 2013 25,000 common shares were issued at a deemed price of $0.04 per common share in payment for the Houghton Creek property. (Note 5)