



SHIELD GOLD INC.
(An Exploration Stage Company)

INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
(Expressed in Canadian dollars)

FOR THE SIX MONTHS ENDED APRIL 30, 2013

Notice to Reader – From Shield Gold Inc.

The interim unaudited condensed financial statements as at and for the six month period ended April 30, 2013 have not been reviewed by the Company's auditors.

SHIELD GOLD INC.
(An Exploration Stage Company)

INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
(Expressed in Canadian dollars)

FOR THE SIX MONTHS ENDED APRIL 30, 2013

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SHIELD GOLD INC.
(An Exploration Stage Company)

INTERIM CONDENSED STATEMENTS OF FINANCIAL POSITION
(UNAUDITED)
(Expressed in Canadian dollars)

	April 30, 2013	October 31, 2012
ASSETS		
CURRENT		
Restricted cash (note 7)	\$ 1,725	\$ 6,532
Tax credits and credit on duties receivable	<u>171,509</u>	<u>171,509</u>
	173,234	178,041
EXPLORATION AND EVALUATION ASSETS (note 4)	<u>687,453</u>	<u>759,874</u>
	<u>\$ 860,687</u>	<u>\$ 937,915</u>
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (notes 6 and 12)	\$ 205,179	\$ 193,204
Flow-through share premium liability (note 11)	<u>32,701</u>	<u>21,713</u>
	237,880	214,917
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 5 (a))	1,558,436	1,470,412
RESERVE FOR WARRANTS (note 5 (c))	99,304	137,169
RESERVE FOR SHARE-BASED PAYMENTS (note 5 (b))	100,563	100,563
CONTRIBUTED SURPLUS	161,120	112,267
DEFICIT	<u>(1,296,616)</u>	<u>(1,097,413)</u>
	<u>622,807</u>	<u>722,998</u>
	<u>\$ 860,687</u>	<u>\$ 937,915</u>
GOING CONCERN (note 1)		
COMMITMENTS (notes 4, 6 and 11)		

Approved by the Board

(signed) "Paul Ankcorn" , Director

(signed) "John Siriunas" , Director

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

SHIELD GOLD INC.
(An Exploration Stage Company)

INTERIM CONDENSED STATEMENTS OF COMPREHENSIVE LOSS (INCOME)
(UNAUDITED)
(Expressed in Canadian dollars)

	Three months ended		Six months ended	
	April 30, 2013	April 30, 2012	April 30, 2013	April 30, 2012
EXPENSES				
Professional fees	\$ 10,336	\$ 9,405	\$ 25,042	\$ 24,032
Management fees (note 6)	26,000	24,000	56,000	48,000
Transfer agent regulatory and filing Fees	13,245	10,354	17,891	11,283
General and administrative	4,329	1,788	5,449	1,788
Consulting fees (note 6)	7,000	2,000	7,000	31,500
Write-off of exploration and evaluation assets (note 4)	87,472	-	87,472	-
Interest and bank charges	190	132	349	302
Loss before the undernoted	148,572	47,679	199,203	116,905
OTHER				
Recognition of flow-through premium liability	-	(107,612)	-	(107,612)
NET (INCOME) LOSS AND COMPREHENSIVE (INCOME) LOSS FOR THE PERIOD	<u>\$ 148,572</u>	<u>(\$ 59,933)</u>	<u>\$ 199,203</u>	<u>\$ 9,293</u>
Basic and diluted loss (income) per share (note 3)	<u>\$ 0.006</u>	<u>(\$ 0.003)</u>	<u>\$ 0.008</u>	<u>\$ 0.000</u>
Weighted average number of common shares outstanding	<u>26,308,236</u>	<u>21,928,236</u>	<u>26,092,389</u>	<u>21,648,016</u>

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

SHIELD GOLD INC.
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INTERIM CONDENSED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(UNAUDITED)
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	Share capital		Reserves for		Contributed surplus	Deficit	Total
	Shares	Amount	Warrants	Share based payments			
Balance, November 1, 2012	25,133,236	\$ 1,470,412	\$ 137,169	\$ 100,563	\$ 112,267	(\$1,097,413)	\$ 722,998
Issued for cash under unit private placement	1,000,000	100,000	-	-	-	-	100,000
Fair value of warrants issued	-	(10,988)	10,988	-	-	-	-
Flow-through share premium	-	(10,988)	-	-	-	-	(10,988)
Fair value of warrants expired during the period	-	-	(48,853)	-	48,853	-	-
Issued on conversion of debt	175,000	10,000	-	-	-	-	10,000
Net loss	-	-	-	-	-	(199,203)	(199,203)
Balance, April 30, 2013	26,308,236	\$ 1,558,436	\$ 99,304	\$ 100,563	\$ 161,120	(\$1,296,616)	\$ 622,807
Balance, November 1, 2011	20,928,236	\$ 1,200,326	\$ 132,673	\$ 18,123	\$ 74,295	(\$ 797,945)	\$ 627,472
Issued for cash under unit private placements	1,000,000	100,000	-	-	-	-	100,000
Fair value of warrants issued	-	(17,699)	17,699	-	-	-	-
Flow-through share premium	-	(34,601)	-	-	-	-	(34,601)
Fair value of warrants expired during the period	-	-	(35,244)	-	35,244	-	-
Net loss	-	-	-	-	-	(9,293)	(9,293)
Balance, April 30, 2012	21,928,236	\$ 1,248,026	\$ 115,128	\$ 18,123	\$ 109,539	(\$ 807,238)	\$ 683,578

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

SHIELD GOLD INC.
(An Exploration Stage Company)

INTERIM CONDENSED STATEMENTS OF CASH FLOWS
(UNAUDITED)
(Expressed in Canadian dollars)

	For the six months ended	
	April 30, 2013	April 30, 2012
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net loss for the year	(\$ 199,203)	(\$ 9,293)
Add items not affecting cash:		
Deferred income tax recovery	-	(107,612)
Write-off of exploration and evaluation assets	87,472	-
Net changes in non-cash working capital balances:		
Increase in HST recoverable	-	(268)
Increase in accounts receivable	-	(82,784)
Increase (decrease) in accounts payable and accrued liabilities	31,589	(244,899)
	(80,142)	(444,856)
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Exploration and evaluation costs	(15,051)	(30,000)
Recoveries of exploration expenditures	-	146,515
Restricted cash	(4,807)	-
	(19,858)	116,515
CASH PROVIDED BY FINANCING ACTIVITIES:		
Issuance of common shares	100,000	100,000
Cash provided by financing activities	100,000	100,000
NET DECREASE IN CASH	-	(228,341)
CASH, BEGINNING OF PERIOD	-	262,883
CASH, END OF PERIOD	\$ -	\$ 34,542
SUPPLEMENTARY NON-CASH INFORMATION		
Common shares issued for settlement of accounts payable	\$ 10,000	\$ -
Fair value of warrants issued	\$ 10,988	\$ 17,699

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

SHIELD GOLD INC.
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NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
(Expressed in Canadian dollars)

FOR THE SIX MONTHS ENDED APRIL 30, 2013

1. NATURE OF BUSINESS AND GOING CONCERN:

Shield Gold Inc. (the "Company") was incorporated under the laws of the Province of Ontario, by Articles of Incorporation dated February 4, 2004. The Company is in the business of mineral exploration and is actively engaged in the acquisition and exploration of mineral properties in Canada. Substantially all of the efforts of the Company are devoted to these business activities. To date the Company has not earned significant revenue and is considered to be in the exploration stage. Shield Gold Inc. is a TSX Venture Tier 2 Company listed under the symbol "SHG". The Company's registered office is at 2 Queen St. East, Suite 1500, Toronto, Ontario, M5C 3G5.

These financial statements have been prepared on the basis of accounting principles applicable to a "going concern", which assumes the Company will continue in operation for the foreseeable future and it will be able to realize its assets and discharge its liabilities in the normal course of operations. The business of mining and exploring for minerals involves a high degree of risk and there is no guarantee that the Company's exploration programs will yield positive results or that the Company will be able to obtain the necessary financing to carry out the exploration and development of its mineral property interests.

In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. Management is aware, in making its assessment, of material uncertainties relating to events or conditions that may cast significant doubt upon the entity's ability to continue as a going concern, as explained in the following paragraph.

The Company has no operating revenue and incurred a loss of \$199,203 in the six months ended April 30, 2013. As at April 30, 2013, the Company has cash of \$nil and a working capital deficiency of \$64,646. The ability of the Company to carry out its planned business objectives is dependent on its ability to raise adequate financing from lenders, shareholders and other investors and/or generate operating profitability and positive cash flow. There can be no assurances that the Company will continue to obtain the additional financial resources necessary and/or achieve profitability or positive cash flows. If the Company is unable to obtain adequate financing, the Company will be required to curtail operations, exploration, and development activities and there would be significant uncertainty whether the Company would continue as a going concern and realize its assets and settle its liabilities and commitments in the normal course of business.

The Company currently does not have sufficient cash on hand to meet all exploration, general expenses and property payments for the 2013 fiscal year. The Company raised gross proceeds of \$100,000 from a unit placement in December 2012 and plans on raising additional capital to further develop and explore its projects, however the Company may increase or decrease expenditures as necessary to adjust to a changing capital market environment.

The financial statements do not include any adjustments that might be necessary if the Company is unable to continue as a going concern. If management is unsuccessful in securing capital, the Company's assets may not be realized or its liabilities discharged at their carrying amounts and these differences could be material.

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NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
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FOR THE SIX MONTHS ENDED APRIL 30, 2013

2. BASIS OF PRESENTATION:

Statement of compliance

The unaudited interim condensed financial statements of Shield Gold Inc. for the six months ended April 30, 2013 have been prepared in accordance with International Financial Reporting Standards and Interpretations (collectively, "IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34, "Interim Financial Reporting".

These unaudited interim condensed financial statements follow the same accounting policies and methods of application as the audited annual financial statements of the Company for the year ended October 31, 2012. These unaudited interim condensed financial statements do not include all the information and note disclosures required by IFRS for annual financial statements and therefore should be read in conjunction with the Company's audited financial statements for the year ended October 31, 2012.

These interim condensed financial statements were approved for issue by the board of directors effective July 2, 2013.

Basis of Measurement

These financial statements have been prepared on the historical cost basis, except for restricted cash which have been classified as financial instruments at fair value through profit and loss and stated at fair value.

Functional and presentation Currency

These financial statements are presented in Canadian dollars, which is the presentation and functional currency of the Company.

Critical accounting judgments and estimates

The preparation of these financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, and income and expenses. Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

Estimates

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and further periods if the review affects both current and future periods. The most significant accounts that require estimates as the basis for determining the stated amounts include: impairment of exploration and evaluation assets; inputs used in the valuation of share-based payments; and provision for deferred income tax, including the effects of flow-through shares.

Judgments

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

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FOR THE SIX MONTHS ENDED APRIL 30, 2013

2. BASIS OF PRESENTATION (continued):

Critical accounting judgments and estimates (continued)

Judgments (continued)

Share-based payments

The Company uses the fair value based method of accounting for stock options granted to employees and others and broker's warrants. Under this method, the fair value of the stock options at the date of the grant, as determined using the Black-Scholes option pricing model, is recognized to expense over the vesting period. The fair value of the broker's warrants at the date of issuance, as determined using the Black-Scholes model, is recognized as share issuance costs, with the offsetting credit to reserve for warrants.

If the stock options or broker's warrants are exercised, the proceeds are credited to share capital and the fair value of the options or warrants exercised is reclassified from share-based payments reserve or reserve for warrants to share capital (see note 5 (b)).

When warrants are issued in conjunction with another security ("Unit") the Company attributes fair value of the warrants using the Black-Scholes option pricing model, and the difference between the proceeds raised and the value assigned to the warrants is the residual fair value of the shares (see note 5 (a) and 5 (c)).

Exploration and evaluation assets

The Company capitalizes mineral exploration costs which are to be amortized when production is attained or the balance thereof written off should the property be disproven through exploration or abandoned. The carrying value of the Company's mineral property is reviewed by management at least annually, or whenever events or circumstances indicate that its carrying value may not be recovered. If impairment is determined to exist, a formal estimate of the recoverable amount is performed and an impairment loss is recognized to the extent that the carrying amount exceeds the recoverable amount. The recoverable amount of an asset is measured at fair value less costs to sell (see note 4).

Deferred income tax

Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates at the reporting date in effect for the period in which the temporary differences are expected to be recovered or settled. The effect on deferred income tax assets and liabilities of a change in tax rates is recognized as part of the provision for income taxes in the period that includes the enactment date. The recognition of deferred income tax assets is based on the assumption that it is probable that taxable profit will be available against which the deductible temporary differences can be utilized (see note 10).

Going concern

Significant judgments are used in the Company's assessment of its ability to continue as a going concern as described in note 1.

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FOR THE SIX MONTHS ENDED APRIL 30, 2013

3. SIGNIFICANT ACCOUNTING POLICIES:

EXPLORATION AND EVALUATION ASSETS

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized, in addition to the acquisition costs. 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 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 transferee 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 the statement of comprehensive loss/income. 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.

Once technical feasibility and commercial viability of extracting the mineral resources 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.

RESTRICTED CASH

Restricted cash balances include unspent cash committed to be expended on prescribed resource expenditures pursuant to flow-through common share agreements.

SHARE CAPITAL

Share capital issued for non-monetary consideration is recorded at an amount based on the quoted trading price of those shares on the TSX Venture at the grant date, less associated share issue costs.

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FOR THE SIX MONTHS ENDED APRIL 30, 2013

3. SIGNIFICANT ACCOUNTING POLICIES (continued):

SHARE-BASED PAYMENTS

Equity-settled share-based payments to employees and others providing similar services are measured at the fair value of the equity instruments at the grant date. Details regarding the determination of the fair value of equity-settled share-based transactions are set out in the share-based payment note 5 (b).

The fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period in which options vest. At the end of each reporting period, the Company revises its estimate of the number of equity instruments expected to vest. The impact of the revision of the original estimates, if any, is recognized in profit or loss such that the cumulative expense reflects the revised estimate, with a corresponding adjustment to share-based payment reserve.

Equity-settled share-based payment transactions with parties other than employees are measured at the fair value of the goods or services received, except where that fair value cannot be estimated reliably, in which case they are measured at the fair value of the equity instruments granted, measured at the date the entity obtains the goods or the counterparty renders the service.

Upon exercise of the options, consideration paid by the option holder together with the fair value amount previously recognized in the reserve for share-based payments account is recorded as an increase to share capital. For those options that expire after vesting, the recorded fair value is transferred to contributed surplus.

VALUATION OF EQUITY INSTRUMENTS IN PRIVATE PLACEMENTS

The Company has adopted a residual method with respect to the measurement of common shares and warrants issued as private placement units. Warrants attached to units are valued based on the fair value of the warrants using the Black-Scholes option pricing model and the share price at the time of financing, and the difference between the proceeds raised and the value assigned to the warrants is the residual fair value of the shares.

The proceeds from the issue of units are allocated between share capital and reserve for warrants. If and when the warrants are exercised, the applicable amounts of reserve for warrants are transferred to share capital. Any consideration paid on the exercise of the warrants is credited to share capital. For those warrants that expire after vesting, the recorded value is transferred to contributed surplus.

BROKER WARRANTS

The Company uses the fair value method based on the Black-Scholes pricing model to determine the fair value of the warrants issued to brokers and records a debit to share issue costs with a corresponding credit to reserve for warrants.

RECLAMATION OBLIGATIONS

A legal or constructive obligation to incur restoration, rehabilitation, and environmental costs may arise when environmental disturbance is caused by the exploration, development, or ongoing production of an exploration and evaluation interest.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

RECLAMATION OBLIGATIONS (continued)

The Company's exploration activities are subject to various governmental laws and regulations relating to the protection of the environment. These environmental regulations are continually changing and are generally becoming more restrictive.

The fair value of the liability for an asset retirement obligation is recorded when it is incurred and the corresponding increase to the asset is amortized over the life of the asset. The liability is increased over time to reflect an accretion element considered in the initial measurement at fair value.

FLOW-THROUGH SHARES

Canadian tax legislation permits the Company to issue flow-through shares. Flow-through shares are securities whereby the deductions for tax purposes related to exploration and evaluation expenditures may be claimed by the investors rather than the Company, subject to a renouncement process.

Renouncement may occur prospectively (the flow-through shares are issued, renouncement then occurs and eligible expenditures are incurred subsequently) or retrospectively (the flow-through shares are issued, eligible expenditures are then incurred and renouncement occurs subsequently).

The issue of flow-through shares is treated as an issue of shares and the sale of tax deductions. The Company uses the residual method to measure the sale of tax deductions. At the time the flow-through shares are issued, the sale of tax deductions is deferred and presented as a flow-through share premium liability on the statement of financial position. When the Company fulfills its obligation to pass on the tax deduction to the investors, the sale of tax deductions is recognized as other income in the statement of comprehensive loss and a deferred tax liability is recognized for the taxable temporary difference that arises from the difference between the carrying amount of eligible expenditures capitalized as an asset in the statement of financial position and its tax base. To the extent that the Company has deferred tax assets that were not recognized in prior periods, a deferred tax recovery is recorded as an offsetting recovery in profit or loss.

If the renouncement is prospective, the obligation is fulfilled when eligible expenditures are incurred. If the renouncement is retrospective, the obligation is fulfilled when the paperwork to renounce is filed.

LOSS PER SHARE

Basic loss per share is computed by dividing the net loss for the year available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of diluted loss per share assumes the conversion or exercise of securities only when such conversion or exercise would have a dilutive effect on earnings per share. Diluted earnings per share are calculated giving effect to the potential dilution that could occur if securities or other contracts to common shares were exercised or converted to such shares at the later of the beginning of the year or the issuance date. The computation of diluted loss per share assumes the conversion or the exercise of securities only when such conversion or exercise would have a dilutive effect on earnings per share. All options and warrants described below have been excluded from the calculation of diluted loss per share since they have an anti-dilutive effect and therefore basic and diluted loss per share is the same for the six months ended April 30, 2013 and April 30, 2012.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

CURRENT AND DEFERRED INCOME TAX

Income tax expense comprises current and deferred tax and is recognized in the statement of comprehensive loss/income except to the extent that it relates to items recognized directly in equity or in other comprehensive income.

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively 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 goodwill, the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit nor loss, and differences relating to investments in subsidiaries to the extent that it is probable that they will not reverse in the foreseeable future. Deferred tax is measured at the tax rates that are expected to be applied to the temporary differences when they reverse, based on the laws that have been enacted or substantively enacted by the reporting date. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities against current tax assets, 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.

EXPLORATION CREDITS

The Company is entitled to refundable mineral exploration tax credits and refundable mining duties as a result of incurring mineral exploration expenses in Quebec. The Company recognizes these amounts when the amount to be received can be reasonably estimated and collection is reasonably assured. In addition, once recovered, these amounts are treated as a reduction of the carrying value of exploration and evaluation assets.

IMPAIRMENT OF NON-FINANCIAL ASSETS

The carrying amounts of the Company's long-lived assets are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, the asset's recoverable amount is estimated. In addition, capitalized exploration and evaluation assets are assessed for impairment upon demonstrating the technical feasibility and commercial viability of the project.

Impairment is determined for an individual asset unless the asset does not generate cash inflows that are independent of those generated from other assets or group of assets, in which case, the individual assets are grouped together into cash generating units ("CGU") for impairment purposes.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

IMPAIRMENT OF NON-FINANCIAL ASSETS (continued)

Impairment exists when the carrying amount of the asset, or group of assets, exceeds its recoverable amount. The impairment loss is the amount by which the carrying value exceeds the recoverable amount and such loss is recognized in the statement of comprehensive loss. The recoverable amount of an asset is the higher of its fair value less costs to sell and its value in use.

A previously recognized impairment loss is reversed if there has been a change in the estimates used to determine the asset's recoverable amount since the last impairment loss was recognized such that the recoverable amount has increased.

FINANCIAL INSTRUMENTS

a) Recognition

Loans and receivables

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

Fair value through profit or loss

Financial assets and liabilities classified as fair value through profit or loss are initially recorded at fair value. Subsequent to initial recognition, they are measured at fair value and changes are recognized in profit or loss.

Other financial liabilities

Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs.

Subsequent to initial recognition these financial liabilities are measured at amortized cost of a financial liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition.

b) Classification

Financial asset/liability	Classification
Restricted cash	Fair value through profit and loss
Accounts payable and accrued liabilities	Other financial liabilities

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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

FINANCIAL INSTRUMENTS (continued)

c) Derecognition

The Company derecognizes a financial asset when the contractual rights to the cash flows from the financial asset expire, or when it transfers the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

The Company derecognizes a financial liability when its contractual obligations are discharged or cancelled or expire.

d) Offsetting

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to set off the recognized amounts and it intends either to settle on a net basis or to realize the asset and settle the liability simultaneously.

Income and expenses are presented on a net basis only when permitted under IFRS, or for gains and losses arising from a group of similar transactions.

e) Amortized cost measurement

The amortized cost of a financial asset or liability is the amount at which the financial asset or liability is measured at initial recognition, minus principal repayments, plus or minus the cumulative amortization using the effective interest method of any difference between the initial amount recognized and the maturity amount, minus any reduction for impairment.

f) Fair value measurement

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction on the measurement date.

When available, the Company measures the fair value of an instrument using quoted prices in an active market for that instrument. A market is regarded as active if quoted prices are readily and regularly available and represent actual and regularly occurring market transactions on an arm's length basis.

If a market for a financial instrument is not active, the Company establishes fair value using a valuation technique. Valuation techniques include using recent arm's length transactions between knowledgeable, willing parties (if available), reference to the current fair value of other instruments that are substantially the same, discounted cash flow analyses and option pricing models.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

FINANCIAL INSTRUMENTS (continued)

f) Fair value measurement (continued)

The chosen valuation technique makes maximum use of market inputs, relies as little as possible on estimates specific to the Company, incorporates all factors that market participants would consider in setting a price, and is consistent with accepted economic methodologies for pricing financial instruments. Inputs to valuation techniques reasonably represent market expectations and measures of the risk-return factors inherent in the financial instrument. The Company calibrates valuation techniques and tests them for validity using prices from observable current market transactions in the same instrument or based on other available observable market data.

The best evidence of the fair value of a financial instrument at initial recognition is the transaction price, i.e., the fair value of the consideration given or received, unless the fair value of that instrument is evidenced by comparison with other observable current market transactions in the same instrument or based on a valuation technique whose variables include only data from observable markets. When transaction price provides the best evidence of fair value at initial recognition, the financial instrument is initially measured at the transaction price and any difference between this price and the value initially obtained from a valuation model is subsequently recognized in profit or loss on an appropriate basis over the life of the instrument but not later than when the valuation is supported wholly by observable market data or the transaction is closed out.

Fair values reflect the credit risk of the instrument and include adjustments to take account of the credit risk of the Company and the counterparty where appropriate. Fair value estimates obtained from models are adjusted for any other factors, such as liquidity risk or model uncertainties; to the extent that the Company believes a third-party market participant would take them into account in pricing a transaction.

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

- Level 1 – valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 – valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and
- Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The Company's restricted cash is considered Level 1 in the hierarchy.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

FINANCIAL INSTRUMENTS (continued)

g) Identification and measurement of impairment

At each reporting date, the Company assesses whether there is objective evidence that financial assets not carried at fair value through profit or loss are impaired.

A financial asset or a group of financial assets is (are) impaired when objective evidence demonstrates that a loss event has occurred after the initial recognition of the asset(s), and that the loss event has an impact on the future cash flows of the asset(s) that can be estimated reliably.

Objective evidence that financial assets are impaired can include significant financial difficulty of the borrower or issuer, default or delinquency by a borrower, restructuring of a loan or receivable by the Company on terms that the Company would not otherwise consider, indications that a borrower or issuer will enter bankruptcy, the disappearance of an active market for a security, or other observable data relating to a group of assets such as adverse changes in the payment status of borrowers or issuers in the group, or economic conditions that correlate with defaults in the group.

The Company considers evidence of impairment for loans and receivables at both a specific asset and collective level. All individually significant loans and receivables are assessed for specific impairment. All individually significant loans and receivables found not to be specifically impaired are then collectively assessed for any impairment that has been incurred but not yet identified. Loans and receivables that are not individually significant are collectively assessed for impairment by grouping together loans and receivables with similar risk characteristics.

Impairment losses on assets carried at amortized cost are measured as the difference between the carrying amount of the financial asset and the present value of estimated future cash flows discounted at the asset's original effective interest rate. Impairment losses are recognized in profit or loss and reflected in an allowance account against loans and receivables. Interest on impaired assets continues to be recognized through the unwinding of the discount.

When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

The Company writes off certain loans and receivable when they are determined to be uncollectible.

PROVISIONS

Provisions are recognized when (a), the Company has a present obligation (legal or constructive) as a result of a past event, and (b), it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. The expense relating to any provision is presented in the statement of comprehensive loss, net of any reimbursement.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

PROVISIONS (continued)

If the effect of the time value of money is material, provisions are discounted using a current pre tax rate that reflects, where appropriate, the risks specific to the liability. Where discounting is used, the increase in the provision due to the passage of time is recognized as a finance cost.

ADOPTION OF NEW AND AMENDED IFRS PRONOUNCEMENTS

The adoption of the following new and amended IFRS pronouncements will result in enhanced financial statement disclosure in the Company's interim or annual financial statements or a change in financial statement presentation. These pronouncements did not affect financial results of the Company.

IFRS 10, Consolidation ("IFRS 10")

The Company adopted IFRS 10, Consolidated Financial Statements ("IFRS 10") on February 1, 2013 with retrospective application. IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 10 did not have an effect on the Company's interim financial statements for the current period or prior periods presented as the Company currently does not have any subsidiaries or special purpose entities.

IFRS 11, Joint Arrangements ("IFRS 11")

The Company adopted IFRS 11, Joint Arrangements ("IFRS 11") on February 1, 2013, with retrospective application from the date of its earliest period presented. IFRS 11 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. IFRS 11 supersedes IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

IFRS 11 did not have an effect on the Company's interim financial statements for the current or prior periods presented as the Company currently does not have any joint arrangements.

IFRS 12, Disclosure of Interests in Other Entities ("IFRS 12")

The Company adopted IFRS 12, Disclosures of Interests in Other Entities ("IFRS 12") on February 1, 2013. IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 12 did not have an effect on the Company's interim financial statements for the current period or prior periods presented as the Company currently does not have any interests in other entities.

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3. SIGNIFICANT ACCOUNTING POLICIES (continued):

ADOPTION OF NEW AND AMENDED IFRS PRONOUNCEMENTS (continued)

IFRS 13, Fair Value Measurement ("IFRS 13")

The Company adopted IFRS 13, Fair Value Measurement ("IFRS 13") with prospective application from February 1, 2013. IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement.

The adoption of IFRS 13 did not have an effect on the Company's interim condensed financial statements for the current period. The disclosure requirements of IFRS 13 will be incorporated in the Company's annual financial statements for the year ended October 31, 2013. This will include discourses about fair values of financial assets and liabilities measured on a recurring basis and non-financial assets and liabilities measured on a non-recurring basis.

Amendments to other standards

IAS 34 – Interim Financial Reporting

IAS 34, Interim Financial Reporting ("IAS 34") was amended to establish criteria for disclosing total segmented assets and require certain fair value disclosures. The Company has adopted IAS 34 effective February 1, 2013.

4. EXPLORATION AND EVALUATION ASSETS AND COMMITMENTS:

Accumulated exploration and evaluation assets have been incurred as follows:

Six months ended April 30, 2013

	Balance, beginning of period	Acquisition	Exploration	Recoveries of tax credits and credit on duties	Write-off	Balance, end of period
<u>Quebec</u>						
Summit-Gaber (a)	\$ 427,854	\$ -	\$ -	\$ -	\$ -	\$ 427,854
La Grande Nord (c)	85,960	-	1,512	-	(87,472)	-
Buckingham (b)	204,410	-	13,539	-	-	217,949
Lochaber (d)	41,650	-	-	-	-	41,650
	<u>\$ 759,874</u>	<u>\$ -</u>	<u>\$ 15,051</u>	<u>\$ -</u>	<u>(\$ 87,472)</u>	<u>\$ 687,453</u>

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4. EXPLORATION AND EVALUATION ASSETS AND COMMITMENTS (continued):

Year ended October 31, 2012

	Balance, beginning of year	Acquisition	Exploration	Recoveries of tax credits and credit on duties	Reclassification	Balance, end of year
<u>Quebec</u>						
Summit-Gaber (a)	\$ 718,821	\$ 30,000	(\$ 44,463)	(\$ 254,293)	(\$ 22,211)	\$ 427,854
La Grande Nord (c)	53,749	10,000	-	-	22,211	85,960
Buckingham (b)	-	62,000	142,410	-	-	204,410
Lochaber (d)	-	41,650	-	-	-	41,650
	<u>\$ 772,570</u>	<u>\$ 143,650</u>	<u>\$ 97,947</u>	<u>(\$ 254,293)</u>	<u>\$ -</u>	<u>\$ 759,874</u>

During the year ended October 31, 2012, the Company reviewed its exploration data and it was determined that La Grande Nord expenditures of \$22,211 were allocated to Summit-Gaber. A reclassification was made accordingly.

a) Summit-Gaber Property

On September 29, 2010, the Company entered into an Option and Joint Venture Agreement (the "Agreement") with Eoro Resources Ltd. to acquire a 50% interest over a three year period in certain mineral claims referred to as the Summit-Gaber Property in La Grande Greenstone Belt, Quebec. The property is subject to a 1% net smelter royalty. In order to earn a 50% interest in the Summit-Gaber Property the Company is required to fulfil the following commitments:

Due Date	Cash Payment	Shares	Exploration Expenditures
November 30, 2009	\$ 25,000 (fulfilled)	-	\$ -
September 29, 2010	25,000 (fulfilled)	100,000 (fulfilled)	-
September 29, 2011	30,000 (fulfilled)	-	250,000 (fulfilled)
September 29, 2012 (extended to September 29, 2013)	-	200,000	450,000
September 29, 2013 (extended to September 30, 2014)	-	300,000	800,000
	<u>\$ 80,000</u>	<u>600,000</u>	<u>\$ 1,500,000</u>

Upon the satisfaction of the above mentioned commitments, the Company will have exercised the option and acquired an undivided 50% interest in the Summit-Gaber Property. Once the option has been exercised, the Company and Eoro Resources Ltd. intend on forming a joint venture for the purposes of further exploration and development of the Summit-Gaber Property.

Eoro Resources Ltd. and the Company have a common director.

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4. EXPLORATION AND EVALUATION ASSETS AND COMMITMENTS (continued):

b) Buckingham Property

On May 14, 2012, the Company entered into an agreement to acquire a 100% interest in 15 mining claims representing 1,302.18 hectares in Buckingham Township in south-western Quebec. The 100% earn-in requires the Company to make the following payments and issue the following number of common shares and incur exploration expenditures, as follows:

Due Date	Cash Payment	Shares	Exploration Expenditures
On or before May 14, 2012	\$ 7,000 (fulfilled)	-	\$ -
On closing, July 3, 2012	15,000 (fulfilled)	400,000 (fulfilled)	-
July 3, 2013	25,000	400,000	40,000 (fulfilled)
July 3, 2014	45,000	400,000	75,000 (fulfilled)
July 3, 2015	50,000	400,000	120,000
	<u>\$ 142,000</u>	<u>1,600,000</u>	<u>\$ 235,000</u>

The property vendor will retain a 2% NSR, 1% of which may be purchased by the Company for \$1,000,000.

On September 4, 2012, the Company entered into an agreement to acquire a 100% interest in 16 additional claims representing 250.55 hectare at the Buckingham Property located in Buckingham Township in south-western Quebec. The 100% earn-in requires the Company to make the following payments and issue the following number of common shares of the Company to the property vendors:

Due Date	Cash Payment	Shares	Exploration Expenditures
On or before September 4, 2012	\$ 3,000 (fulfilled)	-	\$ -
On closing, September 11, 2012	-	200,000 (fulfilled)	-
September 11, 2013	6,000	100,000	18,000 (fulfilled)
September 11, 2014	8,000	100,000	24,000
September 11, 2015	10,000	100,000	30,000
	<u>\$ 27,000</u>	<u>500,000</u>	<u>\$ 72,000</u>

c) La Grande Nord Property

On September 10, 2010, the Company entered into an Option and Joint Venture Agreement (the "Agreement") with Virginia Mines Inc. to earn a 50% interest over a five year period in certain mineral claims referred to as the La Grande Nord Property located in the La Grande Greenstone Belt, Quebec. The property is subject to a 1.5% net smelter royalty.

In order to earn a 50% interest in the La Grande Nord Property the Company is required to fulfil the following commitments:

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4. EXPLORATION AND EVALUATION ASSETS AND COMMITMENTS (continued):

c) La Grande Nord Property (continued)

Due Date	Cash or Shares Payment (see below)	Exploration Expenditures
October 10, 2010	\$ 10,000 (fulfilled in cash)	\$ -
September 10, 2011	10,000 (fulfilled in cash)	-
September 10, 2012 (extended to August 23, 2013)	10,000 (fulfilled in cash)	50,000 (fulfilled)
September 10, 2013 (extended to August 23, 2014)	-	-
September 10, 2014 (extended to August 23, 2015)	-	200,000
September 29, 2015 (extended to August 23, 2016)	-	200,000
August 23, 2017	-	250,000
August 23, 2018	-	300,000
	\$ 30,000	\$ 1,000,000

The above mentioned option payments can be made in cash or shares at the discretion of the Company. The number of common shares to be issued by the Company and the price of issuance will be determined by dividing the cash payment owed to Virginia Mines Inc. by the weighted average closing price of the Company's shares on the Exchange for the 3 trading days immediately preceding the date of payment pursuant to the Agreement, subject to regulatory approval.

Upon the satisfaction of the above mentioned commitments, the Company will have exercised the option and acquired an undivided 50% interest in the La Grande Nord Property. Once the option has been exercised, the Company and Virginia Mines Inc. intend on forming a joint venture for the purposes of further exploration and development of the La Grande Nord Property.

During the six months ended April 30, 2013, the Company decided that due to its focus shift to graphite and the lack of funds to continue to explore all of its mineral interests, it was unlikely that future exploration would occur on the La Grande Nord Property in the foreseeable future, therefore, the capitalized costs were written-off accordingly.

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4. EXPLORATION AND EVALUATION ASSETS AND COMMITMENTS (continued):

d) Lochaber Property

On September 11, 2012, the Company entered into an agreement to acquire a 100% interest in two properties representing 30 mining claims in Lochaber Township in southwestern Quebec. The 100% earn-in requires the Company to make cash option payments, issue common shares and incur exploration expenditures, as follows:

Due Date	Cash Payment	Shares	Exploration Expenditures
On or before September 11, 2012	\$ 7,000 (fulfilled)	-	\$ -
On closing, September 11, 2012	-	630,000 (fulfilled)	-
September 11, 2013	27,000	430,000	60,000
September 11, 2014	43,000	430,000	150,000
September 11, 2015	67,000	430,000	270,000
	<u>\$ 144,000</u>	<u>1,920,000</u>	<u>\$ 480,000</u>

The vendor retains a 2% net smelter royalty, 1% of which may be purchased by the Company for \$1,000,000.

5. SHARE CAPITAL:

a) Common shares

Authorized:

Unlimited number of common shares

Unlimited number of preferred shares issuable in series and classes as may be determined by the Directors of the Company

Unlimited number of special non-voting shares issuable in series and classes as may be determined by the Directors of the Company

i) Share issuances

Six months ended April 30, 2013

Private placement of flow-through units-

On December 5, 2012, the Company completed a private placement and issued 1,000,000 flow-through units at a price of \$0.10 per unit for gross proceeds of \$100,000. Each unit is composed of one flow-through common share of the Company and one-half of one common share purchase warrant. Each full common share purchase warrant will entitle the holder to acquire one additional common share at an exercise price of \$0.15 per share for a period of 18 months from the date of issuance.

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5. SHARE CAPITAL (continued):

- a) Common shares (continued)
- i) Share issuances (continued)

Six months ended April 30, 2013 (continued)

Private placement of flow-through units (continued)-

The fair value of the 500,000 warrants issued in connection with the above private placement was calculated using the Black-Scholes option pricing model with the following assumptions:

Share price	\$ 0.06
Risk-free rate	1.70%
Expected volatility based on historical volatility	110%
Expected life of warrants	1.5 years
Expected dividend yield	0.0%
Fair value of warrants	\$ 10,988
Fair value per warrant	\$ 0.022

Issue of shares on conversion of debt-

On November 19, 2012, the Company issued 175,000 common shares at a deemed price of \$0.057 per unit for the settlement of debt in the amount of \$10,000.

Year ended October 31, 2012

Private placement of flow-through units-

On December 22, 2011, the Company has completed a private placement and issued 1,000,000 flow-through units at a price of \$0.10 per unit for gross proceeds of \$100,000. Each unit is composed of one flow-through common share of the Company and one-half of one common share purchase warrant. Each full common share purchase warrant will entitle the holder to acquire one additional common share at an exercise price of \$0.15 per share for a period of 18 months from the date of issuance.

The fair value of the 500,000 warrants issued in connection with the above private placement was calculated using the Black-Scholes option pricing model with the following assumptions:

Share price	\$ 0.08
Risk-free rate	0.90%
Expected volatility based on historical volatility	110%
Expected life of warrants	1.5 years
Expected dividend yield	0.0%
Fair value of warrants	\$ 12,894
Fair value per warrant	\$ 0.028

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5. SHARE CAPITAL (continued):

- a) Common shares (continued)
- i) Share issuances (continued)

Year ended October 31, 2012 (continued)

Private placement of flow-through units (continued)-

On July 31, 2012, the Company completed a non-brokered private placement and issued 1,500,000 flow-through units (the "FT Units") at a price of \$0.10 per unit for gross proceeds of \$150,000. Each FT Unit consists of one flow-through common share and one-half of one common share purchase warrant exercisable at \$0.15 per share for an 18 month period.

Private placement of units-

On July 31, 2012, the Company completed a non-brokered private placement and issued 475,000 non-flow-through units (the "Units") at a price of \$0.10 per Unit for aggregate gross proceeds of \$47,500. Each Unit consists of one common share and one common share purchase warrant exercisable into one common share of the Company at \$0.12 per share for a period of 18 months.

The fair value of the 1,225,000 warrants issued in connection with the above unit private placements in July 2012 were calculated using the Black-Scholes option pricing model with the following assumptions:

Share price	\$ 0.065
Risk-free rate	0.93%
Expected volatility based on historical volatility	110%
Expected life of warrants	1.5 years
Expected dividend yield	0.0%
Fair value of warrants	\$ 29,574
Fair value per warrant	\$ 0.023 - \$0.019

Shares issued for exploration and evaluation assets-

During the year ended October 31, 2012, the Company issued 600,000 common shares with a fair value of \$37,000, in aggregate, pursuant to the Buckingham option agreements. In addition, 630,000 common shares were issued with an aggregate fair value of \$34,650 pursuant to the Lochaber option agreements. Refer to note 4 (b) and 4 (d) for further details regarding exploration and evaluation assets acquired through fiscal 2012.

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5. SHARE CAPITAL (continued):

b) Stock options and share-based compensation

The shareholders have approved a Stock Option Plan (the "Plan") that provides for the issue of up to 10% (the "Threshold") of the number of issued and outstanding common shares of the Company to eligible employees, directors, officers and consultants of the Company ("Participants"). The issuance of stock options may exceed the Threshold if the Company receives the permission of the stock exchange.

The Plan authorizes the granting of options to purchase common shares of the Company at a price that is not less than that permitted under the rules of any stock exchange or exchanges on which the Company's shares are then listed. The vesting of options is determined by the board of directors, but cannot exceed a maximum term of 10 years.

The number of options granted to any one consultant in a twelve month period shall not exceed 2% of the total number of issued and outstanding common shares. The aggregate number of common shares reserved for issuance to any one Participant of the Plan shall not exceed 5% of the total number of issued and outstanding common shares of the Company in any twelve month period unless the Company receives the permission of the stock exchange.

The aggregate number of options granted to persons employed to provide investor relations activities shall not exceed 2% of the total number of issued and outstanding Shares in any twelve month period.

The following summarizes the stock options that have been granted, exercised, forfeited or cancelled during the six months ended April 30, 2013 and 2012:

	April 30, 2013		April 30, 2012	
	Number of options	Weighted average exercise price	Number of options	Weighted average exercise price
Balance, beginning of the period	2,165,454	\$ 0.10	965,454	\$ 0.10
Granted	-	-	-	-
Exercised	-	-	-	-
Forfeited or cancelled	-	-	-	-
Balance, end of the period	<u>2,165,454</u>	<u>\$ 0.10</u>	<u>965,454</u>	<u>\$ 0.10</u>

The following table summarizes the options outstanding and exercisable at April 30, 2013:

Number of Options	Exercise Price	Expiry Date
1,200,000	\$0.10	May 22, 2017
965,454	\$0.10	May 29, 2014
<u>2,165,454</u>		

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5. SHARE CAPITAL (continued):

b) Stock options and share-based compensation (continued)

The fair value of the 1,200,000 stock-based payments made through fiscal 2012 were calculated using the Black-Scholes option pricing model with the following assumptions:

Share price	\$ 0.08
Risk-free rate	1.43%
Expected volatility based on historical volatility	135%
Expected life of stock options	5 years
Expected dividend yield	0.0%
Fair value of share-based payment	\$ 82,440
Fair value per stock option	\$ 0.0687

c) Warrants

A summary of the status of the warrants as of April 30, 2013 and April 30, 2012 and changes during the periods are presented below:

	April 30, 2013		April 30, 2012	
	Number of warrants	Weighted average exercise price	Number of warrants	Weighted average exercise price
Balance, beginning of the period	4,783,000	\$ 0.12	6,478,000	\$ 0.12
Issued pursuant to private placements (note 5 (a))	500,000	0.15	500,000	0.15
Exercised	-	-	-	-
Expired	(1,598,000)	0.15	(3,200,000)	0.10
Balance, end of the period	<u>3,685,000</u>	<u>\$ 0.15</u>	<u>3,778,000</u>	<u>\$ 0.15</u>

As of April 30, 2013, the following share purchase warrants were outstanding and exercisable:

Expiry Date	Number of Warrants	Weighted average exercise price	Fair value
June 5, 2014	500,000	\$ 0.15	\$ 10,988
*June 13, 2013	500,000	\$ 0.15	12,894
January 23, 2014	750,000	\$ 0.15	17,239
January 23, 2014	475,000	\$ 0.12	12,335
May 3, 2014 (i)	1,460,000	\$ 0.15	45,848
	<u>3,685,000</u>		<u>\$ 99,304</u>

* These warrants expired subsequent to the period end date (see note 13)

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5. SHARE CAPITAL (continued):

c) Warrants (continued)

- i) During the six months ended April 30, 2013, the TSX-V consented to the extension of the expiry of the warrants from May 3, 2013 to May 3, 2014.

d) Escrow agreement

Pursuant to the Escrow Agreement of October 1, 2006, as of April 30, 2013, 801,488 (April 30, 2012 – 2,777,228) common shares were held in escrow in connection with the listing of the Company on the TSX Venture Exchange.

The Escrow Agreement provides for a three-year escrow release mechanism with:

- i) 10% of the escrowed securities being releasable upon the issuance of the Final Exchange Bulletin; and
- ii) 15% of the escrowed securities being releasable in 6 month intervals from October 31, 2010 on each of 6, 12, 18, 24, 30 and 36.

6. RELATED PARTY TRANSACTIONS:

The following related party transactions occurred and were reflected in the financial statements during the six months ended April 30, 2013 and 2012, as follows:

	2013		2012
<i>Management fees expense:</i>			
Management fees were charged by a company controlled by the former Chief Executive Officer for corporate administrative and investor relations services	\$ 42,000	\$	36,000
Management fees were charged by the Chief Financial Officer for financial management services	\$ 14,000	\$	12,000
<i>Consulting fees expense:</i>			
Consulting fees were charged by an officer for corporate administrative services	\$ -	\$	24,000
<i>Deferred exploration and evaluation costs:</i>			
Geological consulting fees were charged by an officer and director	\$ 11,000	\$	-

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6. RELATED PARTY TRANSACTIONS (continued):

As at April 30, 2013, accounts payable and accrued liabilities include \$91,146 (October 31, 2012 - \$67,766) owing to officers and directors at the time of the transactions.

The Company's key management personnel has the authority and responsibility for planning, directing and controlling the activities of the Company and consists of its Directors, Chief Executive Officer and Chief Financial Officer. Total compensation paid to the Company's key management personnel during the period ended April 30, 2013 amounted to \$67,000 (period ended April 30, 2012- \$72,000).

On September 1, 2012, the Company entered into consulting agreements with officers and directors of the Company for corporate administrative, financial management and geological services. The agreements run from September 1, 2012 to August 31, 2013 and amount to \$20,750 per month, in aggregate. Upon expiry of the forgoing term, the agreements will automatically renew for successive one month periods.

Management believes these transactions are in the normal course of business.

7. CASH AND RESTRICTED CASH:

The Company is committed to spend \$260,171 (October 31, 2012- \$185,395), being the remaining proceeds of flow-through share issuances resulting from private placements (see note 11) completed through fiscal 2012 and 2013.

8. CAPITAL MANAGEMENT:

The Company considers its capital to include components of shareholders' equity, which is comprised of share capital, reserve for warrants, reserve for share-based payments, contributed surplus and deficit, which as at April 30, 2013 amounted to \$622,807 (October 31, 2012 - \$722,998).

The Company's objectives in managing capital are: to maintain adequate levels of funding to support its expenditures arising from the Company's investments; to safeguard the Company's ability to continue as a going concern in order to pursue investments and new projects of merit; and to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions.

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 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 continue to assess 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.

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8. CAPITAL 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 period ended April 30, 2013. The Company is not subject to externally imposed capital requirements other than flow-through expenditure requirements (see notes 7 and 11).

9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT:

Overview

The Company is engaged primarily in the mineral exploration field and accordingly it may be at risk for environmental issues and fluctuations in commodity pricing relating to the mineral extraction and exploration industry. The Company is subject to provincial and federal environmental regulations. Management has designed procedures and policies to provide for environmental compliance however, due to the diversity of environmental laws and regulations, compliance at all times cannot be assured.

Although management has taken steps to verify title on the properties on which it conducts exploration and in which it has an interest, these procedures may not guarantee the Company's title. Property title may be at risk from unregistered prior agreements, unregistered claims, other land claims and noncompliance with regulatory and environmental requirements.

The Company has exposure to the following risks from its use of financial instruments:

- Credit risk
- Liquidity and funding risk
- Market risk

The Board of Directors approves and monitors the risk management processes.

Credit risk

Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company's exposure to credit risk is on its restricted cash. Restricted cash consists primarily of cash bank balances held with a Canadian chartered bank. The Company manages the credit exposure related to cash by holding its funds with reputable financial institutions. As of April 30, 2013, the Company's maximum credit exposure for restricted cash is the aggregate carrying value of \$1,725 (October 31, 2012 - \$6,532).

Liquidity risk

Liquidity and funding risk is the risk that the Company will not have sufficient capital to meet short-term operating requirements, after taking into account the Company's holdings of cash and cash equivalents and committed cash.

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9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued):

As at April 30, 2013, the Company's working capital deficiency is \$64,646 (October 31, 2012 – deficiency of \$36,876). In the case of cash deficits arising from exploration commitments and general operating budgets, the Company will have to seek debt or equity financing. There is no assurance that such financing will be available on terms acceptable to the Company.

The Company determined that it will require additional capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company is actively looking to raise cash funds from private placements. The Company's cash balance is invested in business accounts as of April 30, 2013.

Market risk

Foreign currency risk – The Company is not exposed to any fluctuation in foreign exchange rates because the Company does not hold any foreign dominated financial assets or liabilities.

Interest rate risk – Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments. The Company's exposure to interest rate risk is limited due to the short-term nature of its financial instruments. The Company has no-interest bearing debt.

Equity price risk – The Company is exposed to price risk with respect to equity prices. 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 monitors individual equity movements and the stock market to determine the appropriate course of action to be taken by the Company.

Commodity price risk – The Company is exposed to price risk with respect to commodity prices. Changes in commodity prices will impact the economics of development of the Company. The Company monitors commodity prices to determine the appropriate course of action to be taken by the Company.

10. INCOME TAXES:

- a) The effective income tax rate of the Company differs from the combined federal and provincial income tax rate in Canada. This difference results from the following items:

	For six months ended	
	April 30, 2013	April 30, 2012
Net loss before income taxes	(\$ 199,203)	(\$ 116,905)
Expected income tax recovery at the combined Federal and Provincial statutory tax rate of 25% (2011 – 26%)	(49,801)	(30,395)
Difference resulting from:		
Deductible share issue costs	(4,228)	(2,900)
Write-off of exploration and evaluation assets	21,868	-
Temporary differences not recorded	32,161	33,295
Deferred income tax (recovery)	\$ -	\$ -

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10. INCOME TAXES (continued):

- b) The tax effects of non-capital losses and other temporary differences that give rise to deferred income tax assets and deferred tax liabilities at the enacted income tax rates (April 30, 2013 – 25% and October 31, 2012 – 27%) to which no deferred tax has been recognized have been applied at April 30, 2013 and October 31, 2012, as follows:

	April 30, 2013	October 31, 2012
Deferred tax assets (liabilities)		
Non-capital loss carryforward	\$ 316,384	\$ 307,449
Exploration and evaluation assets	(159,492)	(195,869)
Share issue costs	8,191	17,912
	<u>165,083</u>	<u>129,492</u>
Less: Net deferred tax asset not recognized	(165,083)	(129,492)
Net deferred income tax asset	<u>\$ -</u>	<u>\$ -</u>

- c) As of April 30, 2013, the Company has non-capital losses in Canada of approximately \$1,265,536 available for deductions against future taxable income, the balances of which will expire as follows:

2024	\$	17,460
2025		14,298
2026		117,829
2027		57,816
2028		99,020
2029		119,232
2030		174,641
2031		209,631
2032		328,526
2033		<u>127,083</u>
	<u>\$</u>	<u>1,265,536</u>

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11. FLOW-THROUGH SHARE PREMIUM LIABILITY:

The following is a continuity schedule of the liability portion of the flow-through share issuances.

	April 30, 2013	October 31, 2012
Balance, beginning of period	\$ 21,713	\$ 73,011
Liability incurred on flow-through shares issued	10,988	34,607
Settlement of flow-through share liability on incurring expenditures	-	(85,905)
Balance, end of period	<u>\$ 32,701</u>	<u>\$ 21,713</u>

As of April 30, 2013, the Company had fulfilled its commitment to incur and spend exploration expenditures relevant to a April 2011 flow-through financing consisting of 4,650,000 flow-through units for total proceeds of \$465,000.

As of April 30, 2013, the Company had fulfilled its commitment to incur exploration expenditures relevant to a December 2011 flow-through financing consisting of 1,000,000 flow-through units for total proceeds of \$100,000 (see note 5 (a)). However, the Company remains committed to spend flow-through proceeds of \$10,171 as of April 30, 2013.

As of April 30, 2013, the Company is committed to spend \$150,000 and to incur \$130,184 in regards to the July 2012 flow-through private placement consisting of 1,500,000 flow-through units at \$0.10 per unit (see note 5 (a)) by December 31, 2013.

As of April 30, 2013, the Company is committed to spend \$100,000 and to incur \$100,000 in regards to the December 2012 flow-through private placement consisting of 1,000,000 flow-through units at \$0.10 per unit (see note 5 (a)) by December 31, 2013.

There is no guarantee that the Company's exploration expenses will qualify as Canadian exploration expenses, even if the Company is committed to taking all the necessary measures in this regard. Refusal of certain expenses by the tax authorities would have a negative tax impact for investors. Moreover, the Company, has indemnified the subscribers of previous flow-through share offerings against any tax related amounts that become payable by the shareholder as a result of the Company not meeting its commitments.

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12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

	April 30, 2013	October 31, 2012
Trade and accrued liabilities	\$ 172,916	\$ 174,927
HST and QST payable	32,263	18,277
	\$ 205,179	\$ 193,204

13. EVENTS AFTER THE REPORTING DATE:

- a) On June 13, 2013, 500,000 share purchase warrants with an exercise price of \$0.15 expired without exercise.
- b) On June 21, 2013, 329,583 common shares with a deemed value of \$0.06 per share were issued on settlement of debt in the aggregate amount of \$19,775.