SHIELD GOLD INC.
(An Exploration Stage Company)

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

FOR THE NINE MONTHS ENDED JULY 31, 2013

Notice to Reader – From Shield Gold Inc.

The interim unaudited condensed financial statements as at and for the nine month period ended July 31, 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 NINE MONTHS ENDED JULY 31, 2013

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SHIELD GOLD INC.
(An Exploration Stage Company)

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

	July 31, 2013	October 31, 2012
ASSETS		
CURRENT		
Cash (note 7)	$ 220,470	$ 6,532
Accounts receivable	16,000	-
HST receivable	3,379	-
Tax credits and credit on duties receivable	171,509	171,509
	411,358	178,041
EXPLORATION AND EVALUATION ASSETS (note 4)	728,953	759,874
	$ 1,140,311	$ 937,915
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities (notes 6 and 12)	$ 178,280	$ 193,204
Flow-through share premium liability (note 11)	65,744	21,713
	244,024	214,917
SHAREHOLDERS' EQUITY		
SHARE CAPITAL (note 5 (a))	1,831,588	1,470,412
SHARES AND UNITS TO BE ISSUED (note 5 (a))	111,983	-
RESERVE FOR WARRANTS (note 5 (c))	176,920	137,169
RESERVE FOR SHARE-BASED PAYMENTS (note 5 (b))	100,563	100,563
CONTRIBUTED SURPLUS	161,120	112,267
DEFICIT	(1,485,887)	(1,097,413)
	896,287	722,998
	$ 1,140,311	$ 937,915

GOING CONCERN (note 1)
COMMITMENTS (notes 4, 6, 7 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
(UNAUDITED)
(Expressed in Canadian dollars)

	Three months ended		Nine months ended	
	July 31, 2013	July 31, 2012	July 31, 2013	July 31, 2012
EXPENSES				
Professional fees	$ 20,000	$ 11,348	$ 45,042	$ 35,380
Management fees (note 6)	74,500	36,000	130,500	84,000
Transfer agent regulatory and filing fees	9,458	6,540	27,349	17,823
General and administrative	1,267	2,173	6,716	3,961
Stock-based compensation (note 7)	-	93,600	-	93,600
Consulting fees (note 6)	90,700	12,500	97,700	44,000
Gain on settlement of debt	(6,861)	-	(6,861)	
Write-off of exploration and evaluation assets (note 4)	-	-	87,472	-
Interest and bank charges	207	128	556	430
Loss before the undernoted	189,271	162,289	388,474	279,194
OTHER				
Recognition of flow-through premium liability	-	34,601	-	(73,011)
NET LOSS AND COMPREHENSIVE LOSS FOR THE PERIOD	$ 189,271	$ 196,890	$ 388,474	$ 206,183
Basic and diluted loss (income) per share (note 2)	$ 0.007	$ 0.009	$ 0.015	$ 0.010
Weighted average number of common shares outstanding	26,551,430	22,061,569	26,268,467	21,750,458

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)
(Expressed in Canadian dollars)

	Share capital		Reserves for					
	Shares	Amount	Warrants	Share based payments	Shares & units to be issued	Contributed surplus	Deficit	Total
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 placements	8,090,000	454,500	-	-	-	-	-	454,500
Fair value of warrants issued	-	(77,983)	88,604	-	-	-	-	10,621
Flow-through share premium	-	(44,031)	-	-	-	-	-	(44,031)
Fair value of warrants expired during the period	-	-	(48,853)	-	-	48,853	-	-
Issued for exploration and evaluation assets	400,000	24,000	-	-	-	-	-	24,000
Issued for consulting services	176,000	8,800	-	-	61,200	-	-	70,000
Issued on settlement of debt	504,583	33,071			50,783			83,854
Share issue cost – cash	-	(26,560)	-	-	-	-	-	(26,560)
Share issue cost – finders warrants	-	(10,621)			-			(10,621)
Net loss	-	-	-	-	-	-	(388,474)	(388,474)
Balance, July 31, 2013	34,303,819	$ 1,831,588	$ 176,920	$ 100,563	$ 111,983	$ 161,120	($ 1,485,887)	($ 896,287)
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	2,975,000	297,500	-	-	-	-	-	297,500
Fair value of warrants issued	-	(41,464)	41,464	-	-	-	-	-
Issued for exploration and evaluation assets	400,000	28,000	-	-	-	-	-	28,000
Flow-through share premium	-	(49,151)	-	-	-	-	-	(49,151)
Fair value of warrants expired during the period	-	-	(37,972)	-	-	37,972	-	-
Share issue costs – cash	-	(4,250)	-	-	-	-	-	(4,250)
Share-based compensation	-	-	-	93,600	-	-	-	93,600
Net loss	-	-	-	-	-	-	(206,183)	(206,183)
Balance, July 31, 2012	24,303,236	$ 1,430,961	$ 136,165	$ 111,723	$ -	$ 112,267	($1,004,128)	$ 786,988

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 nine months ended	
	July 31, 2013	July 31, 2012
CASH PROVIDED BY (USED IN) OPERATING ACTIVITIES:		
Net loss for the period	($ 388,474)	($ 206,183)
Add items not affecting cash:		
Recognition of flow-through premium liability	-	(73,011)
Consulting fees	70,000	-
Share-based compensation	-	93,600
Write-off of exploration and evaluation assets	87,472	-
Net changes in non-cash working capital balances:		
Decrease (increase) in HST recoverable	(3,379)	12,503
Increase in accounts receivable	(16,000)	(30,000)
Increase (decrease) in accounts payable and accrued liabilities	68,930	(315,526)
Cash used in operating activities	(181,451)	(518,617)
CASH PROVIDED BY (USED IN) INVESTING ACTIVITIES:		
Exploration and evaluation costs	(32,551)	(3,101)
Mineral properties acquisition costs	-	(52,000)
Recoveries of exploration expenditures	-	169,978
Cash provided by (used in) investing activities	(32,551)	114,877
CASH PROVIDED BY FINANCING ACTIVITIES:		
Issuance of common shares	454,500	293,250
Share issue costs	(26,560)	-
Cash provided by financing activities	427,940	293,250
NET INCREASE (DECREASE) IN CASH	213,938	(110,490)
CASH, BEGINNING OF PERIOD	6,532	262,883
CASH, END OF PERIOD	$ 220,470	$ 152,393
SUPPLEMENTARY NON-CASH INFORMATION		
Common shares issued for settlement of accounts payable	$ 50,783	$ -
Fair value of warrants issued	$ 88,604	$ 41,464
Common shares issued or issuable for consulting services	$ 70,000	$ -
Flow-through share premium	$ 44,031	$ 49,151
Shares issued for acquisition of mineral properties	$ 24,000	$ 28,000

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

SHIELD GOLD INC.
(An Exploration Stage Company)

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

FOR THE NINE MONTHS ENDED JULY 31, 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 $388,474 (2012- $206,183) in the nine months ended July 31, 2013. As at July 31, 2013, the Company has cash of $220,470 (October 31, 2012- $6,532) and working capital of $167,334 (October 31, 2012- working capital deficiency of $36,876). 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 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.

SHIELD GOLD INC.
(An Exploration Stage Company)

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

FOR THE NINE MONTHS ENDED JULY 31, 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 discloses 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 September 30, 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:

SHIELD GOLD INC.
(An Exploration Stage Company)

NOTES TO INTERIM CONDENSED FINANCIAL STATEMENTS
(UNAUDITED)
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FOR THE NINE MONTHS ENDED JULY 31, 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.

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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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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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 nine months ended July 31, 2013 and July 31, 2012.

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FOR THE NINE MONTHS ENDED JULY 31, 2013

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
Cash	Fair value through profit and loss
Accounts receivable	Loans and receivables
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 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:

Nine months ended July 31, 2013

	Balance, beginning of period	Acquisition	Exploration	Recoveries of tax credits and credit on duties	Write-off	Balance, end of period
Quebec						
Summit-Gaber (a)	$ 427,854	$ -	$ -	$ -	$ -	$ 427,854
La Grande Nord (c)	85,960	-	1,512	-	(87,472)	-
Buckingham (b)	204,410	24,000	31,039	-	-	259,449
Lochaber (d)	41,650	-	-	-	-	41,650
	$ 759,874	$ 24,000	$ 32,551	$ -	($ 87,472)	$ 728,953

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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
Quebec						
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
	$ 772,570	$ 143,650	$ 97,947	($ 254,293)	$ -	$ 759,874

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 Eloro 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
	$ 80,000	600,000	$ 1,500,000

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 Eloro Resources Ltd. intend on forming a joint venture for the purposes of further exploration and development of the Summit-Gaber Property.

Eloro 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 22 mining claims representing 1,100 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 of before May 14, 2012	$ 7,000 (fulfilled)	-	$ -
On closing, July 3, 2012	15,000 (fulfilled)	400,000 (fulfilled)	-
July 3, 2013	25,000 (fulfilled; note 13)	400,000 (fulfilled)	40,000 (fulfilled)
July 3, 2014	45,000	400,000	75,000 (fulfilled)
July 3, 2015	50,000	400,000	120,000
	$ 142,000	1,600,000	$ 235,000

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 800 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 of before September 4, 2012	$ 3,000 (fulfilled)	-	$ -
On closing, September 11, 2012	-	200,000 (fulfilled)	-
September 11, 2013	6,000 (fulfilled; note 13)	100,000 (fulfilled; note 13)	18,000 (fulfilled)
September 11, 2014	8,000	100,000	24,000
September 11, 2015	10,000	100,000	30,000
	$ 27,000	500,000	$ 72,000

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 nine months ended July 31, 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 of before September 11, 2012	$ 7,000 (fulfilled)	-	$ -
On closing, September 11, 2012	-	630,000 (fulfilled)	-
September 11, 2013	27,000 (note 13)	430,000 (note 13)	60,000
September 11, 2014	43,000	430,000	150,000
September 11, 2015	67,000	430,000	270,000
	$ 144,000	1,920,000	$ 480,000

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

Nine months ended July 31, 2013

Private placement of units-

On July 29, 2012, the Company completed a private placement and issued 2,290,000 units at a price of $0.05 per unit for gross proceeds of $114,500. Each unit is composed of one common share of the Company and 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 $0.10 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)

Nine months ended July 31, 2013 (continued)

Private placement of units (continued)-

In July 2013, the Company completed private placements and issued 4,800,000 flow-through units at a price of $0.05 per unit for gross proceeds of $240,000. 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 $0.10 per share for a period of 18 months from the date of issuance.

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.

The fair value of the 5,925,200 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 - $0.05
Risk-free rate	1.70% - 1.18%
Expected volatility based on historical volatility	110% - 120%
Expected life of warrants	1.5 years
Expected dividend yield	0.0%

Issue of shares on settlement 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.

On June 27, 2012, the Company issued 329,583 common shares for the settlement of debt in the amount of $19,775. The fair value of the Company’s shares at the time of the transaction amounted to $23,071 resulting in a loss on settlement of debt of $3,296.

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5. SHARE CAPITAL (continued):

a) Common shares (continued)

i) Share issuances (continued)

Nine months ended July 31, 2013 (continued)

Shares issued for consulting fees and shares issued or units to be issued-

In July 2013, the Company entered into an arrangement to settle debts of the Company in the amount of $60,940. Although the agreement was culminated through the period ended July 31, 2013, the relevant shares amounting to 1,015,667 were not issued until after the Company's period end (see note 13). The shares have a fair value of $50,783 and accordingly a gain on settlement of $10,157 has been recorded in the statement of comprehensive loss for the period ended July 31, 2013. 846,167 of the foregoing shares were issued on settlement of debt to officers and directors and a former officer and director of the Company.

As of July 31, 2013, the Company was committed to issue 600,000 common shares with a fair value of $30,000 for consulting services rendered through the period.

In addition, as of July 31, 2013, the Company was committed to issue 624,000 units by way of a consulting agreement (inclusive of one common share and one common shares purchase warrant exercisable at $0.10 for an 18 month period) with a fair value of $31,200 (see note 13).

In July 2013, the Company issued 176,000 units for consulting services with a deemed value of $8,800.

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%

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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-

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 nine months ended July 31, 2013 and 2012:

	July 31, 2013		July 31, 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	-	-	1,200,000	0.10
Exercised	-	-	-	-
Forfeited or cancelled	-	-	-	-
Balance, end of the period	2,165,454	$ 0.10	2,165,454	$ 0.10

The following table summarizes the options outstanding and exercisable at July 31, 2013:

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

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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 July 31, 2013 and July 31, 2012 and changes during the periods are presented below:

	July 31, 2013		July 31, 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))	5,925,200	0.10	1,725,000	0.14
Exercised	-	-	-	-
Expired	(2,098,000)	0.15	(3,420,000)	0.10
Balance, end of the period	8,610,200	$ 0.11	4,783,000	$ 0.13

As of July 31, 2013, the following share purchase warrants were outstanding and exercisable:

Expiry Date	Number of Warrants	Weighted average exercise price
June 5, 2014	500,000	$ 0.15
January 23, 2014	750,000	$ 0.15
January 30, 2015	4,690,000	$ 0.10
January 30, 2015	559,200	$ 0.10
January 31, 2015	176,000	$ 0.10
January 23, 2014	475,000	$ 0.12
May 3, 2014 (i)	1,460,000	$ 0.15
	8,610,200	

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5. SHARE CAPITAL (continued):

c) Warrants (continued)

i) During the nine months ended July 31, 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 July 31, 2013, 801,488 (October 31, 2013 – 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 nine months ended July 31, 2013 and 2012, as follows:

		2013		2012
Key management compensation:				
Management fees expense:				
Management fees were charged by a company controlled by the former Chief Executive Officer for corporate administrative and investor relations services	$	61,000	$	60,000
Management fees were charged by the Chief Executive Officer for corporate administrative services	$	38,000		-
Management fees were charged by the Chief Financial Officer for financial management services	$	31,500	$	24,000
Consulting fees expense:				
Consulting fees were charged by officers and directors for corporate administrative services	$	30,000	$	22,500

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6. RELATED PARTY TRANSACTIONS (continued):

Key management compensation (continued):		2013		2012
Deferred exploration and evaluation costs::				
Geological consulting fees were charged by an officer and director	$	28,500	$	-

As at July 31, 2013, accounts payable and accrued liabilities include $73,146 (October 31, 2012 - $67,766) owing to officers and directors at the time of the transactions.

Share-based payments to key management amounted to $30,000 (2012- $58,500) during the nine months ended July 31, 2013.

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.

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 $474,196 (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, shares and units to be issued, reserve for share-based payments, contributed surplus and deficit, which as at July 31, 2013 amounted to $896,287 (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.

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8. CAPITAL MANAGEMENT (continued):

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.

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 July 31, 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.

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9. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued):

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 July 31, 2013, the Company's maximum credit exposure for restricted cash is the aggregate carrying value of $220,470 (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.

As at July 31, 2013, the Company's working capital is $167,334 (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 July 31, 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.

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10. INCOME TAXES:

a) As of July 31, 2013, the Company has non-capital losses in Canada of approximately $1,454,807 available for deductions against future taxable income, the balances of which will expire as follows:

Year		Amount
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		316,354
	$	1,454,807

11. FLOW-THROUGH SHARE PREMIUM LIABILITY:

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

		July 31, 2013		October 31, 2012
Balance, beginning of period	$	21,713	$	73,011
Liability incurred on flow-through shares issued		44,031		34,607
Settlement of flow-through share liability on incurring expenditures		-	(	85,905)
Balance, end of period	$	65,744	$	21,713

As of July 31, 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 July 31, 2013, the Company had fulfilled its commitment to incur and spend 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)).

As of July 31, 2013, the Company is committed to spend $133,196 and to incur $111,684 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.

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11. FLOW-THROUGH SHARE PREMIUM LIABILITY (continued):

As of July 31, 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.

As of July 31, 2013, the Company is committed to spend $240,000 and to incur $240,000 in regards to July 2013 flow-through private placements consisting of 4,800,000 flow-through units at $0.05 per unit (see note 5 (a)) by December 31, 2014.

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.

12. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES:

	July 31, 2013	October 31, 2012
Trade and accrued liabilities	$ 155,013	$ 174,927
HST and QST payable	23,267	18,277
	$ 178,280	$ 193,204

13. EVENTS AFTER THE REPORTING DATE:

Subsequent to period-end, the Company issued 624,000 units with a fair value of $31,200 that were committed to be issued as of July 31, 2013 by way of a consulting agreement (see note 5 (a)).

Subsequent to period-end, the Company issued 1,015,667 common shares on settlement of debts owing by the Company amounting to $60,940.

Subsequent to period-end, the Company issued 600,000 common shares that were issuable as of July 31, 2013 for consulting services.

Subsequent to period-end, 200,000 stock options were exercised for gross proceeds on exercise amounting to $20,000.

Subsequent to period-end, the Company completed a private placement and issued 800,000 units at a price of $0.05 for gross proceeds of $40,000. Each unit consisted of one common shares and one common shares purchase warrant. Each warrant is exercisable into one common shares at a price of $0.10 for an 18 month period.

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13. EVENTS AFTER THE REPORTING DATE:

Subsequent to period-end, the Company granted 1,800,000 stock options at an exercise price of $0.10 per share expiring on September 3, 2016 to directors, officers and consultants of the Company in accordance with the Company's stock option plan.

Subsequent to period-end, the Company granted 300,000 stock options at an exercise price of $0.12 per share expiring on September 18, 2016 to consultants of the Company.

Subsequent to period-end, the Company made cash payments of $31,000 and issued 100,000 common shares pursuant to the option agreement regarding the Buckingham property.

Subsequent to period-end, the Company made cash payments of $5,000 and approved for issue 430,000 common shares pursuant to the option agreement regarding the Lochaber property. The Company is in arrears with certain of its property commitments pursuant to the foregoing option agreement, however to date the Company has not received a default notice.