GRAPHITE ONE RESOURCES INC.
(Formerly Cedar Mountain Exploration Inc.)

Consolidated financial statements

For the years ended September 30, 2013 and 2012

(Expressed in Canadian Dollars)

Kenway Mack Slusarchuk Stewart LLP
CHARTERED ACCOUNTANTS

Independent Auditors' Report

To: The Shareholders of **Graphite One Resources Inc.**

We have audited the accompanying consolidated financial statements of Graphite One Resources Inc., which comprise the consolidated statement of financial position as at September 30, 2013, and the consolidated statement of loss and comprehensive loss, statement of changes in equity and statement of cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Graphite One Resources Inc. as at September 30, 2013, and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 2 in the consolidated financial statements which indicate that the Company has no consistent sources of cash and may require additional funding to continue its operations in the future. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

Other Matters

The consolidated financial statements of Graphite One Resources Inc. for the year ended September 30, 2012, were audited by another auditor who expressed an unmodified opinion on those statements on January 23, 2013.

January 16, 2014

Kenway Mack Slusarchuk Stewart LLP

Calgary, Alberta

Chartered Accountants

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GRAPHITE ONE RESOURCES INC.
Consolidated Statements of Financial Position

As at	Note	September 30, 2013	September 30, 2012
ASSETS			
Current assets			
Cash		$ 1,512,856	$ 767,511
Accounts receivable	5	16,674	75,054
Prepayments and deposits		34,297	148,383
Total current assets		1,563,827	990,948
Non-current assets			
Equipment	6	205,176	302,607
Investment	7	20,000	20,000
Exploration and evaluation properties	8	5,513,217	4,444,125
Total non-current assets		5,738,393	4,766,732
Total assets		$ 7,302,220	$ 5,757,680
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other accounts payable	9	$ 488,313	$ 317,964
Total liabilities		488,313	317,964
Equity			
Share capital	10	16,458,376	14,038,609
Share option reserve	10	3,464,470	2,823,415
Deficit		(13,108,939)	(11,422,308)
Total equity		6,813,907	5,439,716
Total equity and liabilities		$ 7,302,220	$ 5,757,680
Going concern	2		

Approved by the Board of Directors:

"Anthony Huston" Director *"Charles Chebry"* Director

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

GRAPHITE ONE RESOURCES INC.
Consolidated Statements of Loss and Comprehensive Loss

	Note	For the year ended September 30, 2013	2012
Expenses			
Marketing and investor relations		$ 464,667	$ 404,411
Management fees and salaries	11	387,772	326,492
Share-based payments	10	464,083	862,521
Office and administration		268,915	239,465
Professional fees		104,905	48,455
		1,690,342	1,881,344
Other income (expenses)			
Foreign exchange gain (loss)		2,265	(9,805)
Gain on disposition of equipment		-	2,191
Interest income		1,446	23,538
Write-down of exploration and evaluation properties	8	-	(4,910,761)
		3,711	(4,894,837)
Net loss and comprehensive loss for the year		$ (1,686,631)	$ (6,776,181)
Basic and diluted loss per common share		$ (0.02)	$ (0.09)
Weighted average number of common shares oustanding		89,938,337	71,961,162

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

GRAPHITE ONE RESOURCES INC.
Consolidated Statements of Cash Flows

	For the year ended September 30,	
CASH DERIVED FROM (USED IN)	**2013**	**2012**
OPERATING ACTIVITIES		
Loss for the year	$ (1,686,631)	$ (6,776,181)
Items not involving cash:		
Share-based payments	464,083	862,521
Gain on disposition of equipment	-	(2,191)
Write-down of exploration and evaluation	-	4,910,761
Changes in non-cash working capital items		
Accounts receivable	58,380	(17,725)
Prepayments and deposits	114,086	22,234
Trade and other accounts payable	45,229	51,135
	(1,004,853)	(949,446)
FINANCING ACTIVITIES		
Issuance of shares	2,813,210	6,430,009
Share issuance costs	(216,470)	(536,204)
	2,596,740	5,893,805
INVESTING ACTIVITIES		
Acquistion of exploration and evaluation properties	(128,328)	(153,431)
Exploration of exploration and evaluation properties	(843,334)	(4,524,498)
Mineral exploration tax credit received	-	2,982
Purchase of equipment	-	(279,871)
Proceeds from disposition of equipment	-	9,959
Changes in non-cash working capital items		
Trade and other accounts payable	125,120	-
	(846,542)	(4,944,859)
(Decrease) increase in cash	745,345	(500)
Cash at beginning of year	767,511	768,011
Cash at end of year	$ 1,512,856	$ 767,511
Supplemental cash flow information:		
Non-cash transactions eliminated from the consolidated statements of cash flows:		
Depreciation capitalized to exploration and evaluation properties	$ 97,430	$ 53,478
Non-cash share issuance costs	$ 188,193	$ 651,150
	$ 285,623	$ 704,628

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

GRAPHITE ONE RESOURCES INC.
Consolidated Statements of Changes in Equity

	Common Shares		Share Option Reserve	Deficit	Total Equity
	Number	Amount			
October 1, 2011	53,288,249	$ 8,674,217	$ 1,431,481	$ (4,646,127)	$ 5,459,571
Private placement	32,000,000	6,400,000	-	-	6,400,000
Shares issued on agent option exercise	34,650	15,246	(6,237)	-	9,009
Shares issued on option exercise	150,000	38,500	(17,500)	-	21,000
Cost of share issuance	350,000	(1,089,354)	553,150	-	(536,204)
Share-based payments	-	-	862,521	-	862,521
Net loss for the period	-	-	-	(6,776,181)	(6,776,181)
September 30, 2012	85,822,899	14,038,609	2,823,415	(11,422,308)	5,439,716
October 1, 2012	85,822,899	14,038,609	2,823,415	(11,422,308)	5,439,716
Private placement	31,785,785	2,800,009	-	-	2,800,009
Shares issued on agent option exercise	66,000	24,420	(11,220)	-	13,200
Cost of share issuance	-	(404,662)	188,192	-	(216,470)
Share-based payments	-	-	464,083	-	464,083
Net loss for the period	-	-	-	(1,686,631)	(1,686,631)
September 30, 2013	117,674,684	$ 16,458,376	$ 3,464,470	$ (13,108,939)	$ 6,813,907

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

1. NATURE OF OPERATIONS

Cedar Mountain Exploration Inc. (“Cedar Mountain”) was incorporated in Alberta and commenced operations on March 16, 2006. On October 18, 2007, Cedar Mountain closed its initial public offering and began trading on the TSX-Venture exchange under the symbol CED on October 29, 2007. On March 23, 2012, Cedar Mountain changed its name to Graphite One Resources Inc. (“Graphite One” or the “Company”) and adopted symbol GPH on the TSX Venture exchange effective March 27, 2012. On June 11, 2012 the Company began trading in the over the counter market in the United States on the OTCQX under the symbol GPHOF. Graphite One is the parent company of its consolidated group. The Company’s head office address is 160, 1209 – 59th Avenue SE, Calgary, AB, T2H 3P6.

Graphite One is in the business of acquiring and exploring exploration and evaluation properties. The Company has not yet determined whether its properties contain mineral reserves that are economically recoverable and the Company is presently carrying out, or is planning to carry out active exploration efforts on all of its exploration and evaluation properties. The recoverability of the amounts shown for exploration and evaluation properties is dependent upon the existence of economically recoverable reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain necessary financing to complete the development, and ultimately upon future profitable production or proceeds from disposition of the mineral properties.

2. GOING CONCERN

These consolidated financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue in operation for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of operations as they come due. In assessing whether the going concern assumption is appropriate, management takes into account all available information about the future, which is at least, but is not limited to, twelve months from the end of the reporting period.

The Company’s ability to continue to meet its obligations and carry out its planned exploration activities is uncertain and dependent upon the continued financial support of its shareholders and on securing additional financing. There is, however, no assurance that any such initiatives will be sufficient and, as a result, there is significant doubt regarding the going concern assumption and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the Company were unable to realize its assets and settle its liabilities as a going concern in the normal course of operations for the foreseeable future. These adjustments could be material.

3. BASIS OF PRESENTATION

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

The consolidated financial statements have been authorized for issue by the Board of Directors of the Company on January 16, 2014.

3.1. Basis of measurement

These consolidated financial statements have been prepared on a historical cost basis. The statements are presented in Canadian Dollars unless otherwise noted.

3.2. Significant judgments, estimates and assumptions

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the consolidated financial statements and the reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continually evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual results could differ from these estimates.

Judgments

Determination of functional currency: The determination of functional currency for each company in the group requires an analysis of various indicators which IFRS splits between primary and additional indicators. The primary factors include analyzing (a) the currency that mainly influences sales prices for goods and services, (b) the currency of the country whose competitive forces and regulations mainly determine the sales price of its goods or services. Management review concluded that the primary factors were either not applicable or were a mix of currencies for the companies within the group.

Management further reviewed the additional factors for consideration under IFRS which include examining (a) the currency of the financing activities, (b) the currency in which the receipts from operating activities are usually retained, (c) whether the activities of foreign operations are carried out as an extension of the Company or operate with a large degree of autonomy, (d) whether the transactions between the entities is a high or low proportion of the foreign operation's activities, (e) whether cash flows from activities of a foreign operation directly affect the cash flows of the Company and (f) whether cash flows from the activities of the foreign operation are sufficient to service existing and normally expected debt obligations. Management review and consideration of the additional factors lead to the determination that the functional currency for Graphite One Resources Inc. and its subsidiary is the Canadian dollar.

Exploration and evaluation properties: The Company is required to make significant judgments regarding the capitalization of exploration and evaluation properties expenditures. The Company is also required to make significant judgments on the ongoing feasibility of mineral exploration, and whether there are indicators that the right to explore the specific area has or will expire, that further exploration and evaluation plans have changed, or whether development of a specific area is unlikely to recover existing exploration and evaluation property costs. If any of these indicators are present, management would need to assess whether the exploration and evaluation properties should be impaired.

Estimates and assumptions:

Depreciation: Mobile equipment, sample prep lab and analytical equipment are depreciated using the straight line method based on rates and residual values that approximate the estimated useful life of the equipment.

Significant judgment is involved in the determination of useful life and residual values for the computation of depreciation, depletion and amortization and no assurance can be given that actual useful lives and residual values will not differ significantly from current assumptions.

Impairment of equipment: The carrying value of equipment is reviewed each reporting period to determine whether there is any indication of impairment. If the carrying amount of an asset exceeds its recoverable amount, the asset is impaired and an impairment loss is recognized in profit or loss. The assessment of fair values require the use of estimates and assumptions for recoverable production, long-term commodity prices, discount rates, foreign exchange rates, future capital requirements and operating performance. Changes in any of the assumptions or estimates used in determining the fair value of equipment or other assets could impact the impairment analysis.

Deferred taxes: The Company recognizes the deferred tax benefit related to deferred income and resource tax assets to the extent recovery is probable. Assessing the recoverability of deferred tax assets requires management to make significant estimates of future taxable profit. In addition, future changes in tax laws could limit the ability of the Company to obtain tax deductions from deferred income and resource tax assets.

The Company recognizes deferred tax liabilities when there are taxable temporary differences that will reverse and result in a future outflow of funds to a taxation authority. The Company records a provision for the amount that is expected to be settled, which requires the application of judgment as to the ultimate outcome. Deferred tax liabilities could be impacted by changes in the Company's estimate of the likelihood of a future outflow, the expected settlement amount, and future changes in tax laws.

Share-based payments: Share-based payments are determined using the Black Scholes option pricing model based on estimated fair values of all share-based awards at the date of grant and is expensed to the statement of loss and comprehensive loss over each award's vesting period. The Black Scholes option pricing model utilizes subjective assumptions such as expected price volatility and expected life of the option. Changes in these input assumptions can significantly affect the fair value estimate.

4. SIGNIFICANT ACCOUNTING POLICIES

4.1 Principles of Consolidation

The Company consolidates its interest in entities it controls. Control comprises the power to govern an entity's financial and operating policies to obtain benefits from its activities. All intercompany balances and transactions are eliminated. These consolidated financial statements include the accounts of the Company and its wholly owned subsidiary Cedar Mountain Exploration (Alaska) Inc incorporated in Alaska, USA.

4.2 Foreign Currency Translation

The consolidated financial statements are presented in Canadian dollars which is also the functional currency of the Company and its subsidiary. Transactions in foreign currencies are translated to the appropriate functional currency at foreign exchange rates that approximate those on the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the functional currency rate of exchange prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rates at the dates of the initial transactions. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value is determined. Foreign exchange gains and losses are included in profit and loss unless they relate to a net investment in a subsidiary, in which case, the foreign exchange gains and losses are included in equity as accumulated other comprehensive income.

4.3 Cash

Cash and cash equivalents include cash on hand, demand deposits and short-term, highly liquid investments that are readily convertible to known amounts of cash within ninety days of purchase.

4.4 Investments

The Company holds an investment in Metalogic Exploration Inc. ("Metalogic") which it classifies as an available for sale financial instrument and carries at fair value. The Company measures the fair value of Metalogic by reference to recent corporate transactions of Metalogic, or in absence of such transactions, other valuation techniques such as discounted cash flow analysis. The Company also assesses factors that might indicate that the corporate transaction price might not be representative of fair value at the measurement date. These factors include significant changes in the performance of Metalogic compared with budgets, plans, milestones or changes in management or strategy.

4.5 Equipment

Equipment is recorded at cost and carried net of accumulated depreciation and accumulated impairment losses. Costs of additions and improvements are capitalized. An item of equipment is derecognized upon disposal, or impaired when no future economic benefits are expected to arise from continued use of the asset. Any gain or loss on disposal of the asset, determined as the difference between the proceeds and the carrying amount of the asset is recognized in profit or loss.

	Amortization Rate
Analytical equipment	20%
Mobile equipment	20%
Sample preparation lab	50% (30% Residual Value)

The Company provides for depreciation using the straight line method at rates designed to depreciate the cost of individual items over their estimated useful lives. Depreciation on operating assets is included in the statements of net loss as a component of office and administrative expenses. Depreciation of assets utilized in mineral exploration activities is capitalized as a cost of mineral properties.

4.6 Exploration and Evaluation Properties

(i) Pre-license costs:
Costs incurred before the Company has obtained the legal right to explore are expensed as incurred.

(ii) Exploration and evaluation costs:
Once the legal right to explore has been acquired, exploration and evaluation expenditures are capitalized as incurred, unless future economic benefit is not expected to be realized. The Company capitalizes on a property by property basis, the costs of acquiring, maintaining its interest in, exploring and evaluating mineral properties until such time as the lease expires, the property is abandoned, sold or considered impaired in value. Indirect administrative costs are expensed as incurred. Exploration and evaluation properties are not amortized during the exploration and evaluation stage.

Recovery of capitalized costs is dependent on successful development of economic mining operations or the disposition of the related exploration and evaluation property.

Although the Company has taken steps to verify title to exploration and evaluation properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to

prior agreements or transfers, non-compliance with regulatory requirements or title may be affected by undetected defects.

4.7 Decommissioning and Restoration

The Company is subject to various governmental laws and regulations relating to the protection of the environment. The environmental regulations are continually changing and are generally becoming more restrictive.

Decommissioning and restoration obligations encompass legal, statutory, contractual or constructive obligations associated with the retirement of a long-lived tangible asset (for example, mine reclamation costs) that results from the acquisition, construction, development and/or normal operation of a long-lived asset. The retirement of a long-lived asset is reflected by an other-than-temporary removal from service, including sale of the asset, abandonment or disposal in some other manner.

The fair value of a liability for decommissioning and restoration is recorded in the period in which the obligation first arises. The Company records the estimated present value of future cash flows associated with site closure and reclamation as a long-term liability and increases the carrying value of the related assets for that amount. Over time, the liability is increased to reflect an interest element in the estimated future cash flows (accretion expense) considered in the initial measurement of fair value. The capitalized cost is amortized on either the unit-of-production basis or the straight-line basis, as appropriate. The Company's estimates of its provision for decommissioning and restoration obligations could change as a result of changes in regulations, changes to the current market-based discount rate, the extent of environmental remediation required, and the means of reclamation or cost estimates. Changes in estimates are accounted for in the period in which these estimates are revised.

As at September 30, 2013 and 2012 the Company has determined that it does not have any decommissioning and restoration obligations related to current or former operations.

4.8 Provisions

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

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

4.9 Income Taxes

Tax expense recognized in profit or loss comprises the sum of deferred tax and current tax not recognized in other comprehensive income or directly in equity.

Current tax assets and liabilities comprise those obligations to, or claims from, fiscal authorities relating to the current or prior reporting periods, that are unpaid at the reporting date. Current tax is payable on taxable profit which differs from profit or loss in the financial statements. Calculation of current tax is based on tax rates and tax laws that have been enacted or substantively enacted by the end of the reporting period.

Deferred taxes are calculated using the liability method on temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred tax is not provided on the initial recognition of goodwill or on the initial recognition of an asset or liability unless the related transaction is a business combination or affects taxable profit or accounting profit. Deferred tax liabilities on temporary differences associated with shares in subsidiaries and joint ventures is not provided for if reversal of these temporary differences can be controlled by the Company and it is probable that reversal will not occur in the foreseeable future.

Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are likely to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in profit or loss in the period that includes the substantive enactment date. Deferred tax assets are recognized for all temporary differences, carryforward of unused tax credits and unused tax losses to the extent that it is probable that future taxable profits will be available against which they can be utilized.

Deferred tax assets and liabilities are calculated, without discounting, at tax rates that are expected to apply to their respective period of realization, provided they are enacted or substantively enacted by the end of the reporting period. Deferred tax assets are recognized to the extent that it is probable that they will be able to be utilized against future taxable income.

Deferred tax assets and liabilities are offset only when the Company has a right and intention to offset current tax assets and liabilities from the same taxation authority and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same entity or different entities which intend to settle current tax assets and liabilities on a net basis or simultaneously in each future period in which significant amounts of deferred tax assets or liabilities are expected to be recovered or settled.

Changes in deferred tax assets or liabilities are recognized as a component of tax income or expense in profit or loss, except where they relate to items that are recognized in other comprehensive income or directly in equity, in which case the related deferred tax is also recognized in other comprehensive income or equity, respectively.

4.10 Share-based Payments

Share-based payment arrangements in which the Company receives goods or services from consultants as consideration for its own equity instruments are accounted for as equity-settled transactions and, when determinable, are recorded at the value of the goods and services received. If the value of the goods and services received are not determinable, then the fair value of the share-based payment is used.

The Company uses a fair value based method (Black-Scholes Option Pricing Model) for all share options granted to directors, employees and certain consultants. For directors and employees, the fair value of the share options is measured at the date of grant. For grants to non-employees where the fair value of the goods or services is not determinable, the fair value of the share options is measured on the date the services are received.

The fair value of share-based payments is charged either to profit or loss or exploration and evaluation properties, with the offsetting credit to share option reserve. For directors, employees and consultants, the share options are recognized over the vesting period based on the best available estimate of the number of share options expected to vest. If options vest immediately, the expense is recognized when the options are issued. Estimates are subsequently revised if there is any indication that the number of share options expected to vest differs from previous estimates. Any cumulative adjustment prior to vesting is

recognized in the current period. No adjustment is made to any expense recognized in prior periods where vested. For non-employees, the share options are recognized over the related service period. When share options are exercised, the amounts previously recognized in share option reserve are transferred to share capital.

In the event share options are forfeited prior to vesting, the associated fair value recorded to date is reversed. The fair value of any vested share options that expire remain in share option reserve.

4.11 Related party transactions

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

4.12 Share capital

When the Company issues private placement units, the shares and warrants are measured using the residual method. This method allocates value first to the more easily measureable component based on fair value and the residual to the less easily measureable component, if any. The Company considers the fair value of its shares to be the more easily measureable component and is valued with reference to the market price. The residual value is attributed to the warrants, if any is recorded as a separate component of equity.

4.13 Earnings (Loss) per Share

Basic earnings (loss) per share are computed by dividing net earnings (loss) (the numerator) by the weighted average number of outstanding common shares for the period (denominator). In computing diluted earnings per share, an adjustment is made for the dilutive effect of outstanding share options, warrants and other convertible instruments.

In the periods when the Company reports a net loss, the effect of potential issuances of shares under share options and other convertible instruments is anti-dilutive, therefore, basic and diluted loss per share are the same. When diluted earnings per share is calculated, only those share options and other convertible instruments with exercise prices below the average trading price of the Company's common shares for the period will be dilutive.

During the years ended September 30, 2013 and September 30, 2012, all the outstanding share options, agent options and warrants were anti-dilutive.

4.14 Financial Instruments - Recognition and Measurements

Financial instruments are classified into one of five categories, and, depending on the category, will either be measured at amortized cost using the effective interest method or fair value. Held to maturity investments, loans and receivables, and other financial liabilities are measure at amortized cost. Financial assets and liabilities classified as fair value through profit or loss and available for sale financial assets are carried on the consolidated statement of financial position at their fair values where such fair value is determinable. Changes in the fair value of fair value through profit or loss financial instruments are recognized in net income (loss) in the period in which they occur, and changes in the fair value of available for sale financial assets are recognized as a component of other comprehensive income (loss) until the related financial assets are derecognized or impaired at which time accumulated changes in fair

value in accumulated other comprehensive income (loss) are recognized in net income (loss). The Company classifies cash, refundable deposits and other receivables as loans and receivables. Investment is classified as available for sale. Trade and other accounts payable are classified as other financial liabilities.

The Company accounts for financial assets on the trade date, being the date on which the Company commits to buy or sell the financial asset. Transaction costs related to financial assets or financial liabilities classified as other than fair value through profit and loss will be added to the initial carrying value of the financial asset or liability. Transaction costs related to financial assets or financial liabilities classified as fair value through profit and loss are recognized immediately in net loss. Where transactions costs relate to available for sale financial assets they will be charged to other comprehensive income immediately after capitalization as available for sale financial assets are measured at fair value.

The Company assesses at each reporting date whether there is evidence that a financial asset or a group of assets is impaired. Evidence of impairment may include indication that a counterparty is experiencing significant financial difficulty, default or delinquency in interest or principal payments, the probability that will enter bankruptcy or other financial reorganization and when indicators suggest that there are measurable decreases in the estimated future cash flows.

4.15 Changes in Accounting Standards

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

Accounting Standards Issued and Effective for annual periods beginning on or after January 1, 2015
IFRS 9 - Financial Instruments replaces the current standard *IAS 39 Financial Instruments: Recognition and Measurement,* replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

Accounting Standards Issued and Effective for annual periods beginning on or after January 1, 2013
IFRS 10 - *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard:

- *a.* requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements;
- *b.* defines the principle of control, and establishes control as the basis for consolidation;
- *c.* sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee; and,
- *d.* sets out the accounting requirements for the preparation of consolidated financial statements.

IFRS 10 supersedes IAS 27 Consolidated and Separate Financial Statements and SIC-12 Consolidation - Special Purpose Entities.

IFRS 11 - *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12 - *Disclosure of Involvement with Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

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

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

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

5. ACCOUNTS RECEIVABLE

The Company has $16,674 (September 30, 2012 - $61,406) receivable from the Government of Canada due to statutory credits and refunds and has classified these receivables as non-financial assets. Other receivables of nil (September 30, 2012 $13,648) aggregate to total receivables of $16,674 (September 30, 2012-$75,054).

6. EQUIPMENT

Cost				
Balance, September 30, 2011	$ 61,414	$ 42,800	$ -	$ 104,214
Additions	-	86,550	193,321	279,871
Disposals	-	(11,951)	-	(11,951)
Balance, September 30, 2012	$ 61,414	$ 117,399	$ 193,321	$ 372,134
Additions	-	-	-	-
Disposals	-	-	-	-
Balance, September 30, 2013	$ 61,414	$ 117,399	$ 193,321	$ 372,134

Accumulated depreciation				
Balance, September 30, 2011	$ 15,352	$ 4,880	$ -	$ 20,232
Depreciation for the year	12,283	17,266	23,929	53,478
Disposals	-	(4,183)	-	(4,183)
Balance, September 30, 2012	27,635	17,963	23,929	69,527
Depreciation for the year	12,284	23,977	61,170	97,431
Balance, September 30, 2013	$ 39,919	$ 41,940	$ 85,099	$ 166,958

		Analytical Equipment		Mobile Equipment		Sample Preparation Lab		Total Equipment
Net Book Value								
September 30, 2012	$	33,779	$	99,436	$	169,392	$	302,607
September 30, 2013	$	21,495	$	75,459	$	108,222	$	205,176

7. INVESTMENT

On April 28, 2011, the Company sold the Lemon Lake exploration and evaluation property located in British Columbia, Canada in exchange for an 11% ownership interest represented by 400,000 common shares with a fair value of $20,000 of Metalogic Exploration Inc. ("Metalogic"), a newly incorporated private Canadian corporation. No indicators of impairment of its investment were identified by the Company at September 30, 2013.

8. EXPLORATION AND EVALUATION (E&E) PROPERTIES

The following table summarizes the capitalized costs associated with the Company's exploration and evaluation properties:

	U.S.A.					
		Kelly Creek		Graphite Creek		Total
Balance - September 30, 2011	**$**	**4,788,842**	**$**	**-**	**$**	**4,788,842**
Acquisition		16,576		136,855		153,431
Analysis		53,528		218,322		271,850
Geological consulting		13,322		379,189		392,511
Fieldwork		38,493		3,709,759		3,748,252
Write-down of E&E property		(4,910,761)		-		(4,910,761)
Balance - September 30, 2012	**$**	**-**	**$**	**4,444,125**	**$**	**4,444,125**
Acquisition		-		128,328		128,328
Analysis		-		39,019		39,019
Geological consulting		-		283,965		283,965
Fieldwork		-		617,780		617,780
Balance - September 30, 2013	**$**	**-**	**$**	**5,513,217**	**$**	**5,513,217**
Summary						
Acquisition	**$**	**-**	$	265,183	$	265,183
Exploration		-		5,248,034		5,248,034
Balance - September 30, 2013	**$**	**-**	**$**	**5,513,217**	**$**	**5,513,217**
Summary						
Acquisition	$	-	$	136,855	$	136,855
Exploration		-		4,307,270	$	4,307,270
Balance - September 30, 2012	**$**	**-**	**$**	**4,444,125**	**$**	**4,444,125**

Graphite Creek

On January 17, 2012, the Company announced that it had entered into an option agreement (the "Graphite Creek Option") with an arm's length party to earn a 100% interest in the Graphite Creek Property, an approximately 1,375 hectare property on the Seward Peninsula of Alaska. The Graphite Creek Property is an early stage exploration property which the Company has assessed is of high prospectivity for large-flake, high grade graphite. To complete the Graphite Creek Option, the Company must incur exploration expenditures on the Graphite Creek property totalling United States dollars ("USD") 1,525,000 over three years, and make aggregate cash payments to the vendor of the Graphite Creek project totalling USD 425,000, including: USD 25,000 upon entering the Graphite Creek Option; USD 50,000 due March 1, 2012; USD 100,000 due March 1, 2013, and; USD 250,000 on March 1, 2014. During the year ended September 30, 2012, the Company made cash payments to the vendor of the Graphite Creek project totaling USD 75,000. Also during the year ended September 30, 2012, the Company satisfied the entire USD 1,525,000 spending commitment required under the option agreement. During the current fiscal year, the Company made cash payments to the vendor totalling USD 100,000.

Upon completion of the Graphite Creek Option, the Company's interest in the Graphite Creek Property will be governed by an initial 20 year lease with provisions for renewal (the "Graphite Creek Lease"). During the term of the Graphite Creek Lease, the Company must pay an advance royalty (the "Advance Royalty") of USD 30,000 per year for each of the first five years and increasing by USD 10,000 per year thereafter, until such time as the Graphite Creek Property commences production. Upon commencement of production, the Graphite Creek property shall be subject to a 5% net smelter royalty in favour of the vendor of the Graphite Creek Property (the "Graphite Creek NSR"), of which 50% of the total amount payable under the Graphite Creek NSR may be settled by applying advance royalties paid prior to production. The Company shall have the additional option of reducing the Graphite Creek NSR to 3% by making cash payments to the beneficiary of the Graphite Creek Royalty of USD 2,000,000 for each 1% of the total 5% Graphite Creek Royalty.

In February 2012, the Company completed a land acquisition of 28 claims surrounding its Graphite Creek project in Alaska. The Company acquired a 100% interest in the 28 claims from a private individual for $20,000 along with a 2% production royalty which can be purchased in the first three years for a payment of $1,000,000.

Following the staking of additional state lands surrounding the Graphite Creek property, the property now comprises 129 claims totaling 6,799 hectares. 42 of these claims totalling 2,719 hectares are on state select lands awaiting conveyance from the United States federal government to the state of Alaska.

Kelly Creek Mineral Property on Seward Peninsula, Alaska

On May 24, 2012, the Company announced that it had relinquished the Kelly Creek Mineral Property and all associated costs have been written off.

Geographic segments

The Company has one operating segment, mineral exploration, and all exploration and evaluation properties and equipment of the Company are located in the State of Alaska in the United States of America described above.

9. TRADE AND OTHER ACCOUNTS PAYABLE

	September 30, 2013		September 30, 2012	
Financial liabilities				
Trade payables	$	288,019	$	239,964
Accrued liabilities		200,294		78,000
	$	488,313	$	317,964

10. SHARE CAPITAL

10.1 Authorized

Unlimited number of common shares with no par value.

10.2 Shares Issued

Shares issued and outstanding as at September 30, 2013 are 117,674,684 (September 30, 2012 – 85,822,899).

The following share transactions occurred during the current year:

On February 7, 2013, the Company completed a non-brokered private placement of 4,285,785 units (the “Units”) at a price of $0.14 per Unit for gross proceeds of $600,009. Each Unit consists of one common share of the Company and one common share purchase warrant (“Warrant”). Each Warrant is exercisable into one common share of the Company for a period of five years from closing at an exercise price of $0.20 per share in the first two years and C$0.30 per share for the remainder of the period. No fees or commissions were paid as part of this transaction.

On September 5, 2013, the Company closed the first tranche of its $2.2 million non-brokered private placement by issuing a total of 9,879,500 units (the “Units”) at a price of $0.08 per Unit for gross proceeds of $790,360. On September 18, 2013, the Company closed the second and final tranche of this non-brokered private placement by issuing a total of 17,620,500 units (the “Units”) at a price of C$0.08 per Unit for gross proceeds of $1,409,640. Each Unit consists of one common share and one non-transferable common share purchase warrant (a “Warrant”). Each Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of $0.125 per share for a period of 36 months from the date of closing subject to acceleration as described below.

In the event that, following the restricted period that expires January 5, 2014 and January 18, 2014 respectively, the average volume weighted average price of the common shares of the Company is greater than $0.225 per share for any period of 21 consecutive trading days during the term of the Warrant, the Company may at its sole option, provide notice of such event to the holders of any outstanding Warrants and thereafter the outstanding Warrants will expire and cease to be exercisable on the date which is 45 calendar days after the notice is deemed delivered to the holders of the Warrants by the Company.

In connection with the $2.2 million private placement, the Company has paid finders' fees totalling $160,000 and issued 2,000,000 non-transferrable share purchase warrants, each such warrant entitles the

holder to acquire one additional common share of the Company at a price of $0.10 for a period of 18 months following the date is issuance.

The following share transactions occurred during the year ended September 30, 2012:

On March 6, 2012, the Company closed the private placement of 32,000,000 units (the "Units") at a price of $0.20 per Unit for total gross proceeds of $6.4 million (the "Offering"). The Offering consisted of both a brokered (the "Brokered Offering") and a non-brokered (the "Non-brokered Offering") component. Each Unit consists of one common share of the Company ("Common Share") and one-half of one common share purchase warrant (each whole warrant, a "Warrant"). Each Warrant shall be exercisable into one common share of the Company for a period of 24 months from closing at an exercise price of $0.35 per share. The Company has assigned the full amount of the proceeds to the common shares and none to the warrants.

Canaccord Genuity Corp. (the "Agent") led the Brokered Offering, where the Company sold 21,000,000 Units at a price of $0.20 per Unit for gross proceeds of $4,200,000. The Agent received a cash fee on the sale of the securities of $273,000 equal to 6.5% of the aggregate gross proceeds raised in the Brokered Offering, 2,100,000 broker warrants (the "Broker Warrants") with a fair value of $0.17 per warrant, which represent 10% of the securities issued pursuant to the Brokered Offering and a corporate finance fee of 350,000 Units. Each Broker Warrant shall be exercisable for one Common Share at a price of $0.20 at any time up to 24 months after closing.

Pursuant to the Non-brokered Offering, the Company sold 11,000,000 Units at a price of $0.20 per Unit for gross proceeds of $2,200,000 under the same terms as above. In connection with the Non-brokered Offering, the Corporation paid finder's fees to registered dealers by the issuance of: (a) a cash fee for an aggregate of $122,100 equal to 6.5% of the aggregate gross proceeds raised by the registered dealers in the Non-brokered Offering, payable in cash; and (b) non-transferable share purchase warrants with a fair value of $0.17 per warrant entitling such registered dealers to acquire in the aggregate, an additional 1,020,000 common shares on the same terms as the Broker Warrants.

10.3 Warrants

The following table summarizes activity related to warrants:

	Warrants	Weighted Average Exercise Price
Balance, September 30, 2011	27,747,000	$ 0.31
Issued	16,175,000	$ 0.35
Price adjustment - old price March 8, 2011	(17,389,000)	$ 0.35
Price adjustment - new price March 8, 2012	17,389,000	$ 0.45
Expired/cancelled	(10,358,000)	$ 0.25
Balance, September 30, 2012	33,564,000	$ 0.40
Issued	31,785,785	$ 0.14
Expired/cancelled	(17,389,000)	$ 0.45
Balance, September 30, 2013	**47,960,785**	**$ 0.21**

As At	September 30, 2013		September 30, 2012		
Number of warrants outstanding #	Weighted average exercise price $	Weighted average remaining contractual life years	Number of warrants outstanding #	Weighted average exercise price $	Weighted average remaining contractual life years
-	-	-	17,389,000	0.45	0.4
16,175,000	0.35	0.4	16,175,000	0.35	1.4
4,285,785	0.20	4.4	-	-	-
9,879,500	0.13	2.9	-	-	-
17,620,500	0.13	3.0	-	-	-
47,960,785	0.21	2.2	33,564,000	0.40	0.9

10.4 Share based compensation

Pursuant to a stock option plan (the “Plan”) for directors, officers, employees and consultants, the Company may reserve a maximum of 10% of the issued and outstanding listed common shares, the exercise price to be determined on the date of issuance of the options. The options are non-transferable and will expire, if not exercised, 90 days following the date the optionee ceases to be a director, officer, employee or consultant of the Company for reasons other than death, one year after the death of an optionee or on the fifth anniversary of the date the option was granted. Options granted under the plan may not exceed five years and vest at terms to be determined by the board of directors at the time of the grant, but shall not be less than the price determined by policy or policies of the stock exchange(s) on which the Company’s common shares are then listed, or $0.10 per share. Occasionally, the Company issues stock options to agents which do not fall under the plan.

During the year ended September 30, 2013, 3,955,000 options (2012 – 3,575,000) were granted to directors, officers and consultants of the Company. Each option has an exercise price of $0.18, expiring 5 years from the date of grant. Of the 3,955,000 options (2012 – 3,575,000) granted, 3,355,000 options (2012 – 3,400,000) vested immediately with the remaining vesting over a one year period. With respect to these options, $464,083 in share based payments was recorded during the year.

The fair value of the share options granted in the years ended September 30, 2012 and 2013 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Year Ended September 30, 2013	**Year Ended September 30, 2012**
Strike Price	$0.18	$0.28
Market Price	$0.16	$0.27
Risk free interest rate	1.78%	2.54%
Expected option life	5 years	5 years
Expected stock price volatility	120%	146%
Dividend payments during life of option	Nil	Nil
Expected forfeiture rate	Nil	Nil
Fair value per option	$0.13	$0.24

The expected life is based on current expectations. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends.

Option pricing models require the input of highly speculative assumptions. Changes in these assumptions can materially affect the fair value estimate and, therefore, existing models do not necessarily provide a reliable single measure of the fair value of the Company’s share options.

The following table summarizes activity related to stock options:

	Options	Weighted average exercise price
September 30, 2011	5,000,000	$ 0.24
Issued	3,575,000	0.28
Expired/cancelled	(625,000)	0.23
Exercised	(150,000)	0.14
September 30, 2012	7,800,000	0.26
Issued	3,955,000	0.18
Expired/cancelled	(1,530,000)	0.29
September 30, 2013	**10,225,000**	**$ 0.23**

As at September 30, 2013				As at September 30, 2012			
Number of options #	Vested options #	Weighted average exercise price $	Weighted average remaining contractual life (years)	Number of options #	Vested options #	Weighted average exercise price $	Weighted average remaining contractual life (years)
-	-	-	-	730,000	730,000	0.400	0.1
-	-	-	-	425,000	425,000	0.150	0.1
150,000	150,000	0.150	0.3	225,000	225,000	0.150	1.3
950,000	950,000	0.150	1.7	995,000	995,000	0.150	2.8
200,000	200,000	0.300	2.2	200,000	200,000	0.300	3.2
300,000	300,000	0.280	2.4	300,000	300,000	0.280	3.4
1,300,000	1,300,000	0.270	2.6	1,350,000	1,350,000	0.270	3.6
3,275,000	3,275,000	0.280	3.4	3,400,000	3,250,000	0.280	4.4
175,000	175,000	0.280	3.7	175,000	175,000	0.280	4.7
1,275,000	1,275,000	0.200	4.0	-	-	-	-
2,000,000	2,000,000	0.165	5.0	-	-	-	-
600,000	-	0.175	5.0	-	-	-	-
10,225,000	9,625,000	0.227	3.5	7,800,000	7,650,000	0.260	3.3

Subsequent to September 30, 2013, the Company granted 900,000 options to a director and a consultant with an exercise price of $0.17 per option with an expiry date 5 years from the date of grant. Of the 900,000 options granted, 600,000 were granted to a director and vested immediately. The remaining 300,000 granted to a consultant, vest over 1 year from the date of grant.

10.5 Agent Options

The following table summarizes activity related to Agent Options

	Agent Options		Weighted average exercise price
September 30, 2011	1,230,515	$	0.23
Issued	3,120,000		0.20
Exercised	(34,650)		0.26
Expired	(482,775)		0.17
September 30, 2012	**3,833,090**		**0.21**
Issued	2,000,000		0.10
Exercised	(66,000)		0.20
Expired	(713,090)		0.26
September 30, 2013	**5,054,000**	**$**	**0.16**

As at September 30, 2013			As at September 30, 2012		
Number of Agent options * #	Weighted average exercise price $	Weighted average remaining contractual life (years)	Number of Agent options * #	Weighted average exercise price $	Weighted average remaining contractual life (years)
-	-	-	713,090	0.26	0.4
3,054,000	0.20	0.4	3,120,000	0.20	1.4
590,360	0.10	1.4	-	-	-
1,409,640	0.10	1.5	-	-	-
5,054,000	0.16	0.8	3,833,090	0.21	1.2

* All agent options outstanding at June 30, 2013 and September 30, 2012 were fully vested.

The share price on the date of exercise of the 66,000 agent option in the nine months ended June 30, 2013 was $0.205.

The share price on the date of exercise of the 34,650 agent options in the year ended September 30, 2012 was $0.295.

The fair value of the Agent options granted in the year ended September 30, 2013 of $188,193 (2012 - $530,400) was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Year Ended September 30, 2013	**Year Ended September 30, 2012**
Strike Price	$0.10	$0.20
Market Price	$0.16	$0.28
Risk free interest rate	1.71%	1.71%
Expected option life	1.5 years	2 years
Expected stock price volatility	109%	126%
Dividend payments during life of option	Nil	Nil
Expected forfeiture rate	Nil	Nil
Fair value per agent option	$0.10	$0.09

The expected life is based on current expectations. The expected volatility reflects the assumption that the historical volatility over a period similar to the life of the options is indicative of future trends.

11. RELATED PARTY TRANSACTIONS AND BALANCES

Relationships	**Nature of the relationship**
CC Management Services Inc. ("CC")	CC is a private company controlled by an officer and director of the Company. CC provides management services to the Company
859053 Alberta Ltd. ("859053")	859053 Alberta Ltd. is a private company controlled by a former officer and director of the Company. 859053 provided management services to the Company up until March 2012.
Huston Financial Corp. ("Huston")	Huston Financial Corp. is a private company controlled by an officer and director of the Company. Huston provides management services and IR Consulting to the Company.
878160 Alberta Ltd. ("878160")	878160 is a private company controlled by an officer and director of the Company. 878160 provides geological consulting and management services to the Company.
Novus Leadership Services Ltd. ("Novus")	Novus is a private company controlled by an officer and director of the Company. Novus provides management services to the Company.

11.1 Related party transactions

Services provided for the year ended September 30, 2013	Management Services $	IR Consulting $	Geological Services $
CC Management Services Inc.	150,000	-	-
Huston Financial Corp.	44,375	133,125	-
878160 Alberta Ltd.	52,500	-	95,000

Services provided for the year ended September 30, 2012	Management Services $	IR Consulting $	Geological Services $
CC Management Services Inc.	162,500	-	-
Novus Leadership Services Ltd.	49,000	-	-
878160 Alberta Ltd.	-	-	55,160
859053 Alberta Ltd.	12,000	-	-
Huston Financial Corp.	25,104	137,815	-

The above transactions relate to consulting fees incurred by the Company. Management services expenses are included in Management fees and salaries and IR consulting expenses are included in Marketing and investor relations in the consolidated statements of financial position. Geological services are capitalized to Exploration and evaluation properties in the consolidated statements of financial position.

The Company pays a company with common directors for monthly office rent and general operating costs for an office in one of the Company's locations. The office rental and operating costs are shared between several companies, and the Company only pays its pro rata share of the total cost of the office rental and related costs. The Company's share of office rent and basic operating costs was $98,797 for fiscal 2013 (2012 - $72,778).

Amounts owing to related parties are non-interest bearing, unsecured and due on demand. The transactions were in the normal course of operations. At September 30, 2013, the Company owed nil (2012 - $16,100) to related parties.

11.2 Key management compensation

Key management are those personnel having the authority and responsibility for planning, directing and controlling the Company and include the President, Chief Executive Officer, Directors, Chief Financial Officer, and VP Exploration.

	Year ended September 30,	
	2013	**2012**
Consulting fees	$ 475,000	$ 441,579
Benefits	24,193	5,272
Salary	77,000	-
Stock options	418,000	600,000
	$ 994,193	$ 1,046,851

12. MANAGEMENT OF CAPITAL

The Company defines capital that it manages as equity.

The Company's objective when managing capital is to maintain corporate and administrative functions necessary to support the Company's operations and corporate functions; to perform mineral exploration activities on the Company's exploration projects; and to seek out and acquire new projects of merit.

The Company manages its capital structure in a manner that provides sufficient funding for operational and capital expenditure activities. Funds are secured, when necessary, through debt funding or equity capital raised by means of private placements. There can be no assurances that the Company will be able to obtain debt or equity capital in the case of working capital deficits.

The Company does not pay dividends and has no long-term debt or bank credit facility. The Company is not subject to any externally imposed capital requirements. There have not been any changes to the Company's capital management policy during the period.

13. RISK MANAGEMENT

13.1 Financial Risk Management

The Company may be exposed to risks of varying degrees of significance which could affect its ability to achieve its strategic objectives. The main objectives of the Company's risk management processes are to ensure that risks are properly identified and that the capital base is adequate in relation to those risks. The principal risks to which the Company is exposed are described below.

a. Credit risk

Credit risk is the risk of potential loss to the Company if counterparty to a financial instrument fails to meet its contractual obligations. The Company's credit risk is primarily attributable to its cash.

The Company has assessed its exposure to credit risk on its cash and has determined that such risk is minimal. The majority of the Company's cash is held with reputable financial institutions in Canada.

b. Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. As at September 30, 2013, the Company had working capital of $1,075,514, and it does not have any long term monetary liabilities. The Company may seek additional financing through debt or equity offerings, but there can be no assurance that such financing will be available on terms acceptable to the Company or at all. Any equity offering will result in dilution to the ownership interests of the Company's shareholders and may result in dilution to the value of such interests. The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at September 30, 2013, the Company had cash of $1,512,856 to settle current liabilities of $488,313. The Company's financial liabilities have contractual maturities of 30 days or due on demand and are subject to normal trade terms.

c. 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 had $1,512,856 in cash at September 30, 2013, on which it earns variable rates of interest, and may therefore be subject to a certain amount of risk, though this risk is considered by management to be immaterial.

d. Foreign currency risk

Foreign currency risk is the risk that the fair value of, or future cash flows from, the Company's financial instruments will fluctuate because of changes in foreign exchange rates. The Company maintains the majority of its cash reserves in Canadian Dollars. A portion of the Company's funds are held in US Dollars and are therefore subject to fluctuations in foreign exchange rates.

At September 30, 2013, the Company has certain monetary items denominated in United States Dollars. Based on these net exposures at June 30, 2013 a 10% appreciation or depreciation of the Canadian Dollar against the United States Dollar would result in an increase or decrease of $800 in the Company's net loss.

13.2 Fair Values

The carrying values of cash, refundable deposits and other receivables and trade and other accounts payable approximate fair values due to their short-term to maturity nature or the ability to readily convert to cash. The investment is carried at cost (Note 7).

14. INCOME TAXES

The income tax provision differs from the amount computed by applying the statutory rates to loss before income taxes. Income tax rates changed from 25.38% for the year ended September 30, 2012 to 25.00% for the year ended September 30, 2013 due to a reduction in Canadian federal income tax rates. These differences result from the following:

Year ended September 30	**2013**	2012
Loss before income taxes	**$ (1,686,631)**	$ (6,776,181)
Statutory rate	**25.00%**	25.38%
Expected tax recovery	**421,658**	1,719,795
Effect of tax rate changes and tax rates in foreign jurisdictions	**-**	723,971
Non-deductible expenses	**(65,304)**	(90,117)
Change in unrecognized deferred tax asset	**(356,354)**	(2,353,649)
Income tax recovery (expense)	**$ -**	$ -

Unrecognized deferred tax asset is comprised of the following tax affected temporary differences:

Year ended September 30	**2013**	2012
Mineral properties	**$ 2,108,949**	$ 2,108,949
Non-capital losses carried forward	**1,296,908**	938,533
Equipment	**6,909**	6,909
Capital loss carried forward	**81,004**	81,004
Share issuance and incorporation costs	**153,288**	155,309
Unrecognized deferred tax asset	**$3,647,058**	$ 3,290,704

Deferred tax assets of $47,048 (2012 - $134,051) arising from share issuance costs incurred in the year ended September 30, 2013 were not recognized as the amounts were not considered probable to be realized.

The Company has Canadian non-capital losses of $5,187,632 for income tax purposes, the benefit of which have not been recognized, which expire as follows:

Year of origin	Non-capital loss	Year of expiry
2006	$ 17,461	2025
2007	166,137	2026
2008	7,126	2027
2008	429,488	2028
2009	568,141	2029
2010	622,255	2030
2011	741,373	2031
2012	1,211,362	2032
2013	1,433,469	2033
	$ 5,187,632	

The Company has accumulated capital losses of $648,031 which can be carried forward indefinitely to offset future capital gains.