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

Consolidated financial statements

For the years ended September 30, 2012 and 2011

(Expressed in Canadian Dollars)

Independent Auditor's Report

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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 statements of financial position as at September 30, 2012, September 30, 2011 and October 1, 2010, and the consolidated statements of loss and comprehensive loss, consolidated statements of changes in equity and consolidated statements of cash flows for the years ended September 30, 2012 and September 30, 2011, 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 consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits 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 consolidated 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 auditor's 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 auditor considers 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 in our audits 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 consolidated financial position of Graphite One Resources Inc. as at September 30, 2012, September 30, 2011, and October 1, 2010, and its financial performance and its cash flows for the years ended September 30, 2012 and September 30, 2011 in accordance with International Financial Reporting Standards.

Emphasis of matter

Without modifying our opinion, we draw attention to Note 2 in the consolidated financial statements which indicates that the Company incurred a net loss of $6,776,181 during the year ended September 30, 2012 and, as of that date, the Company has an accumulated deficit of $11,422,308. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management's plans in regard to these matters are also described in Note 2. The consolidated financial statements do not include any adjustments that might result from the outcome of this uncertainty.

Edmonton, Canada

January 23, 2013

Grant Thornton LLP

Chartered Accountants

GRAPHITE ONE RESOURCES INC.
Consolidated Statements of Financial Position

As at	Note	September 30, 2012	September 30, 2011 (Note 15)	October 1, 2010 (Note 15)
ASSETS				
Current assets				
Cash		$ 767,511	$ 768,011	$ 733,200
Accounts receivable	5	75,054	57,329	16,300
Mineral exploration tax credits receivable	5	-	2,982	36,437
Prepayments and deposits		148,383	97,550	21,900
Total current assets		990,948	925,872	807,837
Non-current assets				
Equipment	6	302,607	83,982	58,344
Investment	7	20,000	20,000	-
Exploration and evaluation properties	8	4,444,125	4,788,842	1,073,872
Total non-current assets		4,766,732	4,892,824	1,132,216
Total assets		$ 5,757,680	$ 5,818,696	$ 1,940,053
EQUITY AND LIABILITIES				
Current liabilities				
Trade and other accounts payable	9	$ 317,964	$ 359,125	$ 249,831
Total liabilities		317,964	359,125	249,831
Equity				
Share capital	10	14,038,609	8,674,217	4,307,979
Share option reserve	10	2,823,415	1,431,481	735,640
Deficit		(11,422,308)	(4,646,127)	(3,353,397)
Total equity		5,439,716	5,459,571	1,690,222
Total equity and liabilities		$ 5,757,680	$ 5,818,696	$ 1,940,053
Going concern	2			

Approved by the Board of Directors:

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

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

	Note	Year ended September 30, 2012	2011
			(Note 15)
Expenses			
Marketing and investor relations		$ 404,411	$ 175,233
Management fees and salaries	11	326,492	272,793
Share-based payments	10	862,521	568,000
Office and administration		239,465	158,973
Professional fees		48,455	44,185
Exploration and evaluation property pre-acquisition costs	15	-	37,786
		1,881,344	1,256,970
Other income (expenses)			
Foreign exchange loss		(9,805)	(36,227)
Gain on disposition of equipment		2,191	-
Interest income		23,538	22,321
Writedown of exploration and evaluation properties	8	(4,910,761)	(21,854)
		(4,894,837)	(35,760)
Net loss and comprehensive loss for the year		$ (6,776,181)	$ (1,292,730)
Basic and diluted loss per common share		$ (0.09)	$ (0.03)
Weighted average number of common shares oustanding		71,961,162	44,722,549

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

GRAPHITE ONE RESOURCES INC.
Consolidated Statements of Cash Flows

	Year ended September 30,	
CASH DERIVED FROM (USED IN)	**2012**	**2011**
		(Note 15)
OPERATING ACTIVITIES		
Loss for the year	$ (6,776,181)	$ (1,292,730)
Items not involving cash:		
Share-based payments	862,521	568,000
Gain on disposition of equipment	(2,191)	-
Writedown of exploration and evaluation propeties	4,910,761	21,854
Changes in non-cash working capital items		
Accounts receivable	(17,725)	(41,029)
Prepayments and deposits	22,234	(23,226)
Trade and other accounts payable	51,135	(129,411)
	(949,446)	(896,542)
FINANCING ACTIVITIES		
Issuance of shares	6,430,009	4,736,456
Share issuance costs	(536,204)	(242,377)
	5,893,805	4,494,079
INVESTING ACTIVITIES		
Acquistion of exploration and evaluation properties	(153,431)	(220,658)
Exploration of exploration and evaluation properties	(4,524,498)	(3,332,723)
Mineral exploration tax credit received	2,982	33,455
Purchase of equipment	(279,871)	(42,800)
Proceeds from disposition of equipment	9,959	-
	(4,944,859)	(3,562,726)
(Decrease) increase in cash	(500)	34,811
Cash at beginning of year	768,011	733,200
Cash at end of year	$ 767,511	$ 768,011
Supplemental cash flow information:		
Non-cash transactions eliminated from the consolidated statements of cash flows:		
Non-cash share issuance costs	$ 651,150	$ 157,343
Depreciation capitalized to exploration and evaluation properties	53,478	17,162
	$ 704,628	$ 174,505

During the year ended September 30, 2012 the company received interest of $23,538 (2011 - $22,321) related to operating activities.

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, 2010 (Note 15)	33,953,224	$ 4,307,979	$ 735,640	$ (3,353,397)	$ 1,690,222
Private placement	17,389,000	4,347,250	-	-	4,347,250
Shares issued on agent option exercise	67,525	20,258	(6,752)	-	13,506
Shares issued on warrant exercise	1,878,500	375,700	-	-	375,700
Cost of share issuance	-	(376,970)	134,593	-	(242,377)
Share-based payments	-	-	568,000	-	568,000
Net loss for the year	-	-	-	(1,292,730)	(1,292,730)
September 30, 2011 (Note 15)	53,288,249	8,674,217	1,431,481	(4,646,127)	5,459,571
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 year	-	-	-	(6,776,181)	(6,776,181)
September 30, 2012	85,822,899	$ 14,038,609	$ 2,823,415	$ (11,422,308)	$ 5,439,716

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 1280, 885 West Georgia Street, Vancouver, BC, V6C 3E8.

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. Management is pursuing various avenues to source funding for ongoing operations and further exploration and has received expressions of interest from parties to participate in future financing. Management also plans to curtail expenditures until additional financing is in place.

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"). These are the Company's first set of annual consolidated financial statements prepared in accordance with IFRS. The preparation of these consolidated financial statements resulted in changes to the accounting policies as compared to the most recent annual financial statements prepared under Canadian generally

accepted accounting principles ("Canadian GAAP" or "GAAP"). The accounting policies below have been applied to all periods presented in these consolidated financial statements; and are based on 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 23, 2012.

3.1. Adoption of IFRS

The Company's transition date to IFRS was October 1, 2010 (the "Transition Date") and the comparative consolidated statements of financial position as at September 30, 2011 and October 1, 2010 and comparative consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the year ended September 30, 2011, have been restated in accordance with IFRS.

The guidance for adoption of IFRS is set out in IFRS 1, First-Time Adoption of International Financial Reporting Standards. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first-time adopters of IFRS. The Company elected to apply the requirements of IFRS 2, Stock-based payments, prospectively from the Transition Date.

Reconciliations between the Company's previously reported consolidated statements of financial position and consolidated statements of loss and comprehensive loss are presented in note 15.

3.2. 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.

3.3. 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 which 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

Investments in which the Company does not exert control or significant influence are accounted for using the cost method whereby the investment is initially recorded at cost; earnings from such investments are recognized only to the extent received or receivable.

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%

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, 2012 and 2011 and October 1, 2010 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 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 year ended September 30, 2012 and September 30, 2011, all the outstanding share options, agent options and warrants were anti-dilutive.

4.13 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.

4.14 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 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 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. RECEIVABLES

The Company has $61,406 (2011 - $54,208, October 1, 2010 - $16,300) receivable from the Government of Canada due to statutory credits and refunds and has classified these receivables as non-financial assets. Other receivables of $13,648 (2011 – $3,121, October 1, 2010 - nil) aggregate to total receivables of $75,054 (2011 - $57,329, October 1, 2010 - $16,300). All mineral exploration tax credits receivable from the Government of British Columbia were received during the year. No additional qualifying expenditures were incurred during 2012.

6. EQUIPMENT

	Analytical Equipment	Mobile Equipment	Sample Preparation Lab	Total Equipment
Cost				
Balance, October 1, 2010	$ 61,414	$ -	$ -	$ 61,414
Additions	-	42,800	-	42,800
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
Accumulated depreciation				
Balance, October 1, 2010	$ 3,070	$ -	$ -	$ 3,070
Depreciation for the year	12,282	4,880	-	17,162
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

	Analytical Equipment	Mobile Equipment	Sample Preparation Lab	Total Equipment
Net Book Value				
October 1, 2010	$ 58,344	$ -	$ -	$ 58,344
September 30, 2011	$ 46,062	$ 37,920	$ -	$ 83,982
September 30, 2012	$ 33,779	$ 99,436	$ 169,392	$ 302,607

7. INVESTMENT

On April 28, 2011, the Company sold the Lemon Lake exploration and evaluation property located in British Columbia, Canada in exchange for 400,000 common shares with a fair value of $20,000 of Metalogic Exploration Inc. ("Metalogic"), a newly incorporated private Canadian corporation. The Company's approximately 11% ownership interest in Metalogic is carried at cost of $20,000 as fair value of the shares cannot be reliably measured and due to the absence of a quoted market price in an active market for the shares.

8. EXPLORATION AND EVALUATION (E&E) PROPERTIES

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

	Canada	U.S.A.		
	Lemon Lake	Kelly Creek	Graphite Creek	Total
Balance - September 30, 2010	**$ 40,000**	**$ 1,033,872**	**$ -**	**$ 1,073,872**
Acquisition	-	220,658	-	220,658
Analysis	872	-	-	872
Geological consulting	-	221,662	-	221,662
Fieldwork	982	3,312,650	-	3,313,632
Write-down of E&E property	(21,854)	-	-	(21,854)
Disposition of E&E property	(20,000)	-	-	(20,000)
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**
Summary				
Acquisition	$ -	$ -	$ 136,855	$ 136,855
Exploration	-	-	4,307,270	4,307,270
Balance - September 30, 2012	**$ -**	**$ -**	**$ 4,444,125**	**$ 4,444,125**
Summary				
Acquisition	$ -	$ 572,882	$ -	$ 572,882
Exploration	-	4,215,960	-	4,215,960
Balance - September 30, 2011	$ -	**$ 4,788,842**	**$ -**	**$ 4,788,842**

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, the Company made cash payments to the vendor of the Graphite Creek project totaling USD75,000. Also during the year, the Company satisfied the entire USD 1,525,000 spending commitment required under the option agreement.

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.

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.

Lemon Lake Property, British Columbia, Canada.

During December, 2010, the Company entered into a letter of intent with two arm's length individuals to sell the Company's Lemon Lake mineral property in British Columbia, Canada to a newly incorporated private company, Metalogic, in exchange for 400,000 common shares of the private company with a deemed value of $0.10 per common share. The Company determined that this transaction was an indication of the fair value of the property as at September 30, 2010 and therefore recorded an impairment

to the Lemon Lake property in the amount of $98,855, as a component of net loss, to reflect the negotiated sale value of $40,000.

On April 28, 2011, the Company amended the terms of the sale of Lemon Lake property to 400,000 common shares of Metalogic with a value of $0.05 per common share. As a result, during the year ended September 30, 2011 the Company recorded an additional impairment to the Lemon Lake Property in the amount of $20,000, recorded as a component of net loss, to reflect the amended sale value of $20,000 (Note 7).

Segmented disclosure

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, 2012		September 30, 2011		October 1, 2010	
Financial liabilities						
Trade payables	$	239,964	$	333,343	$	75,815
Payroll liabilities		-		-		2,074
Accrued liabilities		78,000		25,782		171,942
	$	317,964	$	359,125	$	249,831

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, 2012 are 85,822,899 (September 30, 2011 – 53,288,249).

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.

During the year ended September 30, 2011 the following share transactions occurred:

On March 8, 2011, the Company completed a non-brokered private placement to raise gross proceeds of $4,347,250 by the issuance of 17,389,000 units (the “Units”) of the Company at a price of $0.25 per Unit. Each Unit consisted of one common share of the Company (“Common Share”) and one non-transferable Common Share purchase warrant (a “Warrant”). Each Warrant is exercisable to acquire one additional Common Share in the capital of the Company at an exercise price of $0.35 per Common Share until March 8, 2012 and thereafter at an exercise price of $0.45 per Common Share until March 8, 2013. The Company has assigned the full amount of the proceeds to common shares and none to the warrants.

The Company paid aggregate cash Finder’s fees of $186,935 and issued an aggregate of 747,740 Common Share purchase warrants (each a “Finder’s Warrant”) as payment of finder’s fees. Each Finder’s Warrant is exercisable to purchase one Common Share of the Company at an exercise price of $0.26 per Common Share until March 8, 2013.

10.3 Warrants

The following table summarizes activity related to warrants:

	Warrants	Weighted Average Exercise Price
Balance, October 1, 2010	12,236,500	$ 0.18
Issued	17,389,000	0.35
Exercised	(1,878,500)	0.20
Price adjustment - old price October 1, 2009	(5,550,000)	0.15
Price adjustment - new price October 1, 2010	5,550,000	0.20
Price adjustment - old price July 9, 2010	(5,538,000)	0.20
Price adjustment - new price July 9, 2011	5,538,000	0.30
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**

As At	**September 30, 2012**			**September 30, 2011**	
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**
-	-	-	4,820,000	0.20	-
-	-	-	5,538,000	0.30	0.8
17,389,000	0.45	0.4	17,389,000	0.35	1.4
16,175,000	0.35	1.4	-	-	-
33,564,000	0.40	0.9	27,747,000	0.31	1.0

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, 2012, 3,575,000 options were granted (2011 – 2,350,000). During the year $862,521 (or $0.24 per stock option) in share based payments were recorded representing $799,500 related to options issued to directors, officers, or consultants of the Company plus $63,021 related to graded vesting for options issued which vest over a one year period. In the year ended September 2011, $568,000 (or $0.24 per stock option) in share based payments were recorded representing the fair value of options issued to directors, officers or consultants.

The fair value of the share options granted in the year ended September 30, 2012 and the year ended September 30, 2011 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Year Ended September 30, 2012	Year Ended September 30, 2011
Strike Price	$0.28	$0.27
Market Price	$0.27	$0.27
Risk free interest rate	2.54%	2.62%
Expected option life	5 years	5 years
Expected stock price volatility	146%	140%
Dividend payments during life of option	Nil	Nil
Expected forfeiture rate	Nil	Nil

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.

The weighted average share price on the dates of exercise of 150,000 stock options in the year ended September 30, 2012 was $0.29.

The following table summarizes activity related to stock options:

	Options	Weighted average exercise price
October 1, 2010	3,250,000	$ 0.21
Issued	2,350,000	0.27
Expired/cancelled	(600,000)	0.17
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**

As at September 30, 2012				As at September 30, 2011			
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	0.40	0.1	730,000	730,000	0.40	1.0
425,000	425,000	0.15	0.1	500,000	500,000	0.15	1.0
225,000	225,000	0.15	1.3	275,000	275,000	0.15	2.3
-	-	-	-	50,000	50,000	0.12	2.9
995,000	995,000	0.15	2.8	1,195,000	1,195,000	0.15	3.8
200,000	200,000	0.30	3.2	300,000	300,000	0.30	4.2
300,000	300,000	0.28	3.4	450,000	450,000	0.28	4.4
1,350,000	1,350,000	0.27	3.6	1,500,000	1,500,000	0.27	4.6
3,400,000	3,250,000	0.28	4.4	-	-	-	-
175,000	175,000	0.28	4.7	-	-	-	-
7,800,000	7,650,000	0.26	3.3	5,000,000	5,000,000	0.24	3.3

Subsequent to the year ended September 30, 2012, 1,155,000 stock options expired and the Company issued 1,355,000 options to directors and officers of the Company. The stock options issued are exercisable at $0.20 per share for five years.

10.5 Agent Options

The following table summarizes activity related to Agent Options

	Agent Options	Weighted average exercise price
October 1, 2010	550,300	$ 0.15
Issued	747,740	0.26
Price adjustment - old price	(180,775)	0.20
Price adjustment - new price	180,775	0.30
Exercised	(67,525)	0.20
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**

As at September 30, 2012			**As at September 30, 2011**		
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)**
-	-	-	302,000	0.10	-
-	-	-	180,775	0.30	0.8
713,090	0.26	0.4	747,740	0.26	1.4
3,120,000	0.20	1.4	-	-	-
3,833,090	0.21	1.2	1,230,515	0.23	2.7

* All agent options outstanding at September 30, 2012 and September 30, 2011 were fully vested.

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, 2012 of $530,400 (2011 - $134,593) was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Year Ended September 30, 2012	Year Ended September 30, 2011
Strike Price	$0.20	$0.26
Stock Price	$0.28	$0.27
Risk free interest rate	1.71%	1.88%
Expected option life	2 years	2 years
Expected stock price volatility	126%	130%
Dividend payments during life of option	Nil	Nil
Expected forfeiture rate	Nil	Nil

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 current director of the Company. CC provides management services to the Company
859053 Alberta Ltd. ("859053")	859053 Alberta Ltd. is a private company controlled by an 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 services to the Company.
Novus Leadership Services Ltd. ("Novus")	Novus is a private company controlled by an officer of the Company. Novus provides management services to the Company.
1157245 Alberta Ltd. ("1157245")	1157245 is a private company controlled by a director of the Company. 1157245 provided geological consulting services to the Company in 2011.
Key management	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.

Key Management compensation includes:

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

Services provided for the year ended September 30, 2011	Management services	IR Consulting	Geological Services
CC Management Services Inc.	$ 131,000	$ -	$ -
859053 Alberta Ltd.	36,388	-	-
Huston Financial Corp.	-	83,336	-
1157245 Alberta Ltd.	-	-	6,291

	Year Ended September 30,	
	2012	**2011**
Benefits	$ 5,272	$ 723
Stock options	600,000	326,000
	$ 605,272	$ 326,723

The transactions were in the normal course of operations. At September 30, 2012, the Company owed $16,100 (2011 – nil) to related parties.

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 and other receivables.

The Company has assessed its exposure to credit risk on its cash and other receivables 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, 2012, the Company's working capital was $672,984, 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, 2012, the Company had cash of $767,511 to settle current liabilities of $317,964. 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 $767,511 in cash at September 30, 2012, 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, 2012, the Company has certain monetary items denominated in United States Dollars. Based on these net exposures at September 30, 2012 a 10% appreciation or depreciation of the Canadian Dollar against the United States Dollar would result in an increase or decrease of $5,753 (2011 - $24,399) 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 26.88% for the year ended September 30, 2011 to 25.38% for the year ended September 30, 2012 due to a reduction in Canadian federal income tax rates. These differences result from the following:

Year ended September 30	**2012**	2011
Loss before income taxes	**$ (6,776,181)**	$ (1,292,730)
Statutory rate	**25.38%**	26.88%
Expected tax recovery	**1,719,795**	347,486
Effect of tax rate changes and tax rates in foreign jurisdictions	**723,971**	(8,076)
Non-deductible expenses	**(224,168)**	(162,880)
Change in unrecognized deferred tax asset	**(2,219,598)**	(176,530)
Income tax recovery (expense)	**$ -**	$ -

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

	September 30, 2012	September 30, 2011	October 1, 2010
Mineral properties	**$ 2,108,949**	$ 134,626	$ 109,856
Non-capital losses carried forward	**938,533**	635,692	452,652
Equipment	**6,909**	3,838	768
Capital loss carried forward	**81,004**	81,004	81,004
Share issuance and incorporation costs	**155,309**	81,895	55,650
Unrecognized deferred tax asset	**$ 3,290,704**	$ 937,055	$ 699,930

Deferred tax assets of $134,051 (2011 - $60,595) arising from share issuance costs incurred in the year ended September 30, 2012 were not recognized as the amounts were not considered probable to be realized.

The Company has Canadian non-capital losses of $3,763,343 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
	$ 3,763,343	

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

15. TRANSITION TO IFRS

The Company's IFRS accounting policies as described in Note 4 have been applied in preparing the consolidated financial statements for the year ended September 30, 2012, the comparative information and the opening statement of financial position at the Transition Date.

The Company has applied IFRS 1, First-time Adoption of International Financial Reporting Standards in preparing these first IFRS consolidated financial statements. The effects of the transition to IFRS on equity, loss and comprehensive loss and reported cash flows are presented in this section and are further explained in the notes that accompany the tables presented below. There was no significant impact on the statements of cash flows as a result of adopting IFRS.

15.1 First-time adoption and exemptions applied

Upon transition, IFRS 1 permits certain exemptions from full retrospective application. The Company has applied the mandatory exceptions and elected certain optional exemptions. Mandatory exceptions adopted by the Company include:

a. The Company has used estimates under IFRS that are consistent with those applied under Canadian GAAP (with adjustments for accounting policy differences) unless there is objective evidence those estimates were in error.

Optional exemptions elected by the Company include:

a. The Company has elected to not apply IFRS 2, Share-based Payments to equity instruments that were granted and fully vested prior to the Transition Date.

15.2 Presentation differences

Some line items are described differently under IFRS compared to Canadian GAAP. These line items are as follows (with Canadian GAAP descriptions in brackets):

- Exploration and evaluation properties ("Mineral properties")
- Trade and other accounts payable ("Accounts payable and accrued liabilities")
- Share option reserve ("Contributed surplus")
- Share-based payments ("Stock-based compensation")

Adjustments required in transitioning from Canadian GAAP to IFRS are set out in the following statements:

Reconciliation of consolidated statements of financial position

		As at October 1, 2010			As at September 30, 2011		
		CDN GAAP	Effect of transition to IFRS	IFRS	CDN GAAP	Effect of transition to IFRS	IFRS
ASSETS	Note						
Current							
Cash		$ 733,200	$ -	$ 733,200	$ 768,011	$ -	$ 768,011
Goods and services tax receivable		16,300	-	16,300	57,329	-	57,329
Mineral exploration tax credits receivable		36,437	-	36,437	2,982	-	2,982
Prepaid expenses and deposits		21,900	-	21,900	97,550	-	97,550
		807,837	-	807,837	925,872	-	925,872
				-			
Equipment		58,344	-	58,344	83,982	-	83,982
Investments		-	-		20,000	-	20,000
Mineral properties	a	1,073,872	-	1,073,872	4,826,628	(37,786)	4,788,842
		$ 1,940,053	$ -	$ 1,940,053	$ 5,856,482	$ (37,786)	$ 5,818,696
LIABILITIES AND EQUITY							
Accounts payable and accrued liabilities		$ 249,831	$ -	$ 249,831	$ 359,125	$ -	$ 359,125
Shareholders' equity							
Deficit	a	(3,353,397)	-	(3,353,397)	(4,608,341)	(37,786)	(4,646,127)
Share capital		4,307,979	-	4,307,979	8,674,217	-	8,674,217
Contributed surplus		735,640	-	735,640	1,431,481	-	1,431,481
		1,690,222	-	1,690,222	5,497,357	(37,786)	5,459,571
		$ 1,940,053	$ -	$ 1,940,053	$ 5,856,482	$ (37,786)	$ 5,818,696

15. TRANSITION TO IFRS (CONTINUED)

Reconciliation of consolidated statements of loss and comprehensive loss

	Note	Year ended September 30, 2011		
		CDN GAAP	Effect of transition to IFRS	IFRS
Expenses				
Advertising and promotion		$ 175,233	-	175,233
Management fees and salaries		272,793	-	272,793
Office and administration		158,973	-	158,973
Professional fees		44,185	-	44,185
Share-based payments		568,000	-	568,000
Exploration and evaluation property pre-acquisition costs	a	-	37,786	37,786
		1,219,184	37,786	1,256,970
Other income (expenses)				
Interest income		22,321	-	22,321
Loss on foreign exchange		(36,227)	-	(36,227)
Write down of mineral properties		(21,854)	-	(21,854)
Net loss and comprehensive loss for the year		(1,254,944)	(37,786)	(1,292,730)

Note to Reconciliations

a) *Exploration and evaluation properties*

Under GAAP, the Company capitalized all costs associated with the finding and development of the exploration and evaluation property. Under IFRS, costs incurred prior to acquiring the legal right to explore the property are expensed.

The Company has accordingly recalculated the capitalized amounts of exploration and evaluation properties and recognized the difference as an exploration and evaluation property pre-acquisition cost expense in the year ended September 30, 2011.

There was no impact on the opening balance sheet as a result of this adjustment.