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

Condensed interim consolidated financial statements

For the three months ended December 31, 2012 and 2011

(Unaudited)
(Expressed in Canadian Dollars)

GRAPHITE ONE RESOURCES INC.
Condensed Interim Consolidated Statements of Financial Position
(Unaudited)

As at	Note	December 31, 2012	September 30, 2012
ASSETS			
Current assets			
Cash		$ 284,288	$ 767,511
Accounts receivable	5	50,229	75,054
Prepayments and deposits		48,411	148,383
Total current assets		382,928	990,948
Non-current assets			
Equipment	6	284,157	302,607
Investment	7	20,000	20,000
Exploration and evaluation properties	8	4,706,504	4,444,125
Total non-current assets		5,010,661	4,766,732
Total assets		$ 5,393,589	$ 5,757,680
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other accounts payable	9	$ 268,749	$ 317,964
Total liabilities		268,749	317,964
Equity			
Share capital	10	14,039,614	14,038,609
Share option reserve	10	3,025,094	2,823,415
Deficit		(11,939,868)	(11,422,308)
Total equity		5,124,840	5,439,716
Total equity and liabilities		$ 5,393,589	$ 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 unaudited condensed interim consolidated financial statements

GRAPHITE ONE RESOURCES INC.
Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
(Unaudited)

	Note	Three Months Ended December 31, 2012	2011
Expenses			
Marketing and investor relations		$ 105,219	$ 63,440
Management fees and salaries	11	99,478	47,169
Share-based payments	10	201,679	-
Office and administration		89,561	63,107
Professional fees		22,259	8,444
		518,196	182,160
Other income (expenses)			
Foreign exchange gain (loss)		(214)	4,710
Interest income		850	1,218
		636	5,928
Net loss and comprehensive loss for the year		$ (517,560)	$ (176,232)
Basic and diluted loss per common share		$ (0.01)	$ (0.00)
Weighted average number of common shares oustanding		85,822,899	53,288,249

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

GRAPHITE ONE RESOURCES INC.
Condensed Interim Consolidated Statements of Cash Flows
(Unaudited)

	Three Months Ended December 31, 2012	2011
CASH DERIVED FROM (USED IN)		
OPERATING ACTIVITIES		
Loss for the period	$ (517,560)	$ (176,232)
Items not involving cash:		
Share-based payments	201,679	-
Changes in non-cash working capital items		
Accounts receivable	24,825	(11,267)
Prepayments and deposits	99,975	72,369
Trade and other accounts payable	(49,216)	(311,492)
	(240,297)	(426,622)
FINANCING ACTIVITIES		
Share issuance costs	1,005	-
	1,005	-
INVESTING ACTIVITIES		
Acquistion of exploration and evaluation properties	(13,065)	(16,576)
Exploration of exploration and evaluation properties	(230,866)	(89,481)
	(243,931)	(106,057)
(Decrease) increase in cash	(483,223)	(532,679)
Cash at beginning of year	767,511	768,011
Cash at end of period	$ 284,288	$ 235,332
Supplemental cash flow information:		
Non-cash transactions eliminated from the consolidated statements of cash flows:		
Depreciation capitalized to exploration and evaluation properties	$ 18,449	$ 5,322
	$ 18,449	$ 5,322

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

	Common Shares		Share Option		Total
	Number	Amount	Reserve	Deficit	Equity
October 1, 2011	53,288,249	$ 8,674,217	$ 1,431,481	$ (4,646,127)	$ 5,459,571
Net loss for the period	-	-	-	(176,232)	(176,232)
December 31, 2011	53,288,249	8,674,217	1,431,481	(4,822,359)	5,283,339
October 1, 2012	85,822,899	14,038,609	2,823,415	(11,422,308)	5,439,716
Cost of share issuance	-	1,005	-	-	1,005
Share-based payments	-	-	201,679	-	201,679
Net loss for the period	-	-	-	(517,560)	(517,560)
December 31, 2012	85,822,899	$ 14,039,614	$ 3,025,094	$ (11,939,868)	$ 5,124,840

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 unaudited condensed interim 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 unaudited condensed interim 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.

3. BASIS OF PRESENTATION

These unaudited condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") that the Company expects to be applicable for its annual financial statements for the year ending September 30, 2013. The accounting policies applied in the preparation of these unaudited condensed interim consolidated financial statements are consistent with those applied and disclosed in the Company's consolidated financial statements for the year ended September 30, 2012.

The unaudited condensed interim consolidated financial statements have been authorized for issue by the Board of Directors of the Company on February 26, 2013.

3.1. Statement of compliance

These condensed interim consolidated financial statements have been prepared in accordance with IAS 34, "*Interim Financial Reporting"* using accounting principles consistent with IFRS as published by the IASB and the International Financial Reporting Interpretations Committee (IFRIC). These unaudited condensed interim consolidated financial statements, do not include all disclosure required by IFRS for annual financial statements and accordingly should be read in conjunction with the Company's audited annual financial statements for the year ended September 30, 2012.

3.2. Basis of measurement

These unaudited condensed interim 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 unaudited condensed interim 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 unaudited condensed interim 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

<u>Determination of functional currency</u>: 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

Refer to the Company's annual consolidated financial statements for the year ended September 30, 2012 and 2011 (audited) for a summary of significant accounting policies.

4.1 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 unaudited condensed interim 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 $41,401 (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 $8,828 (September 30, 2012 13,648) aggregate to total receivables of $50,229 (September 30, 2012-$75,054).

6. EQUIPMENT

	Analytical Equipment	Mobile Equipment	Sample Preparation Lab	Total 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, December 31, 2012	$ 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	3,071	5,852	9,527	18,450
Balance, December 31, 2012	$ 30,706	$ 23,815	$ 33,456	$ 87,977

	Analytical Equipment	Mobile Equipment	Sample Preparation Lab	Total Equipment
Net Book Value				
September 30, 2011	$ 46,062	$ 37,920	$ -	$ 83,982
September 30, 2012	$ 33,779	$ 99,436	$ 169,392	$ 302,607
December 31, 2012	$ 30,708	$ 93,584	$ 159,865	$ 284,157

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 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:

	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	-	13,065	13,065
Analysis	-	30,928	30,928
Geological consulting	-	100,401	100,401
Fieldwork	-	117,985	117,985
Write-down of E&E property	-	-	-
Balance - December 31, 2012	**$ -**	**$ 4,706,504**	**$ 4,706,504**
Summary			
Acquisition	$ -	$ 149,920	$ 149,920
Exploration	-	4,556,584	4,556,584
Balance - December 31, 2012	**$ -**	**$ 4,706,504**	**$ 4,706,504**
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 USD75,000. Also during the year ended September 30, 2012, the Company satisfied the entire USD 1,525,000 spending commitment required under the option agreement.

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.

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

	December 31, 2012	September 30, 2012
Financial liabilities		
Trade payables	$ 210,939	$ 239,964
Payroll liabilities	810	-
Accrued liabilities	57,000	78,000
	$ 268,749	$ 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 December 31, 2012 are 85,822,899 (September 30, 2012 – 85,822,899).

There were no share transactions completed during the three month period ended December 31, 2012.

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	-	-
Expired/cancelled	-	-
Balance, December 31, 2012	**33,564,000**	**$ 0.40**

As At	**December 31, 2012**			**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	0.2	17,389,000	0.45	0.4
16,175,000	0.35	1.2	16,175,000	0.35	1.4
33,564,000	0.40	0.7	33,564,000	0.31	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 three months ended December 31, 2012, 1,355,000 options were granted (2011 – nil). During the period $201,679 in share based payments were recorded representing $189,700 (or $0.14 per stock option) related to options issued to directors, officers, or consultants of the Company plus $11,979 related to graded vesting for options issued which vest over a one year period.

The fair value of the share options granted in the year ended September 30, 2012 and the three months ended December 31, 2012 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Three Months Ended December 31, 2012	**Year Ended September 30, 2012**
Strike Price	$0.20	$0.28
Market Price	$0.16	$0.27
Risk free interest rate	1.37%	2.54%
Expected option life	5 years	5 years
Expected stock price volatility	131%	146%
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.

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	1,355,000	0.20
Expired/cancelled	(1,155,000)	0.31
December 31, 2012	**8,000,000**	**$ 0.25**

As at December 31, 2012				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	0.40	0.1
-	-	-	-	425,000	425,000	0.15	0.1
225,000	225,000	0.15	1.1	225,000	225,000	0.15	1.3
995,000	995,000	0.15	2.5	995,000	995,000	0.15	2.8
200,000	200,000	0.30	3.0	200,000	200,000	0.30	3.2
300,000	300,000	0.28	3.2	300,000	300,000	0.28	3.4
1,350,000	1,350,000	0.27	3.3	1,350,000	1,350,000	0.27	3.6
3,400,000	3,400,000	0.28	4.2	3,400,000	3,250,000	0.28	4.4
175,000	175,000	0.28	4.5	175,000	175,000	0.28	4.7
1,355,000	1,355,000	0.20	4.8	-	-	-	-
8,000,000	8,000,000	0.25	3.8	7,800,000	7,650,000	0.26	3.3

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	-	-
Exercised	-	-
Expired	-	-
December 31, 2012	**3,833,090**	**$ 0.21**

As at December 31, 2012			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	0.2	713,090	0.26	0.4
3,120,000	0.20	1.2	3,120,000	0.20	1.4
3,833,090	0.21	1.0	3,833,090	0.21	1.2

* All agent options outstanding at December 31, 2012 and September 30, 2012 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 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Three Months Ended December 31, 2012	**Year Ended September 30, 2012**
Strike Price	n/a	$0.20
Stock Price	n/a	$0.28
Risk free interest rate	n/a	1.71%
Expected option life	n/a	2 years
Expected stock price volatility	n/a	126%
Dividend payments during life of option	n/a	Nil
Expected forfeiture rate	n/a	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 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.
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 three months ended December 31, 2012	Management Services	IR Consulting	Geological Services
CC Management Services Inc.	$ 37,500	$ -	$ -
Huston Financial Corp.	11,250	33,750	-
878160 Alberta Ltd.	15,000	-	15,000

Services provided for the three months ended December 31, 2011	Management services	IR Consulting	Geological Services
CC Management Services Inc.	$ 37,500	$ -	$ -
859053 Alberta Ltd.	9,000	-	-
Huston Financial Corp.	-	31,251	-

	Three Months Ended December 31 2012	2011
Benefits	$ 7,269	$ 723
Salary	17,144	-
Stock options	164,500	-
	$ 188,913	$ 723

Amounts owing to related parties are non-interest bearing, unsecured and due on demand. The transactions were in the normal course of operations. At December 31, 2012 and 2011, there were no amounts owing 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 December 31, 2012, the Company's working capital was $114,179, 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 December 31, 2012, the Company had cash of $284,288 to settle current liabilities of $268,749. 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 $284,288 in cash at December 31, 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 December 31, 2012, the Company has certain monetary items denominated in United States Dollars. Based on these net exposures at December 31, 2012 a 10% appreciation or depreciation of the Canadian Dollar against the United States Dollar would result in an increase or decrease of $13,870 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. SUBSEQUENT EVENTS

On February 7, 2013, the Company announced the closing of a non-brokered private placement of 4,285,785 units (the "Units") at a price of C$0.14 per Unit for gross proceeds of C$600,010. 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 C$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. In accordance with applicable securities legislation, securities issued pursuant to this financing are subject to a hold period of four months plus one day from the date of completing the financing.