GRAPHITE ONE RESOURCES INC.

Condensed interim consolidated financial statements

For the three and nine months ended June 30, 2014 and 2013

(Unaudited)
(Expressed in Canadian Dollars)

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

As at	Note	June 30, 2014	September 30, 2013
ASSETS			
Current assets			
Cash		$ 244,088	$ 1,512,856
Accounts receivable	5	16,567	16,674
Prepayments and deposits		32,978	34,297
Total current assets		293,633	1,563,827
Non-current assets			
Equipment	6	122,304	205,176
Investment	7	20,000	20,000
Exploration and evaluation properties	8	6,587,060	5,513,217
Total non-current assets		6,729,364	5,738,393
Total assets		$ 7,022,997	$ 7,302,220
EQUITY AND LIABILITIES			
Current liabilities			
Trade and other accounts payable	9	$ 80,517	$ 488,313
Total liabilities		80,517	488,313
Equity			
Share capital	10	17,823,581	16,458,376
Share option reserve	10	3,655,761	3,464,470
Deficit		(14,536,862)	(13,108,939)
Total equity		6,942,480	6,813,907
Total equity and liabilities		$ 7,022,997	$ 7,302,220

Going concern	2
Commitments	14
Subsequent events	15

Approved by the Board of Directors:

"Anthony Huston" Director *"Douglas H. Smith"* Director

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

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

	Note	For The Three Months Ended June 30, 2014	For The Three Months Ended June 30, 2013	For the nine months ended June 30, 2014	For the nine months ended June 30, 2013
Expenses					
Marketing and investor relations		$ 105,088	$ 59,625	$ 430,468	$ 363,641
Management fees and salaries	11	204,888	90,259	536,596	305,459
Share-based payments	10	31,219	-	203,385	201,679
Office and administration		70,998	49,207	176,397	226,576
Professional fees		45,764	12,147	78,550	54,892
		457,957	211,238	1,425,396	1,152,247
Other income (expenses)					
Foreign exchange gain (loss)		(842)	(500)	(7,307)	80
Interest income		1,363	174	4,780	1,446
		521	(326)	(2,527)	1,526
Net loss and comprehensive loss for the period		$ (457,436)	$ (211,564)	$ (1,427,923)	$ (1,150,721)
Basic and diluted loss per common share		$ (0.00)	$ (0.00)	$ (0.01)	$ (0.01)
Weighted average number of common shares oustanding		126,372,776	89,679,219	122,593,038	88,078,713

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

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

	For The Three Months Ended June 30,		For the nine months ended June 30,	
CASH DERIVED FROM (USED IN)	**2014**	**2013**	**2014**	**2013**
OPERATING ACTIVITIES				
Loss for the period	$ (457,436)	$ (211,564)	$ (1,427,923)	$(1,150,721)
Items not involving cash:				
Share-based payments	31,219	-	203,385	201,679
Changes in non-cash working capital items				
Accounts receivable	332	22,986	107	73,926
Prepayments and deposits	15,322	19,336	1,319	111,187
Trade and other accounts payable	(125,815)	129,221	(407,796)	(95,372)
	(536,378)	(40,021)	(1,630,908)	(859,301)
FINANCING ACTIVITIES				
Issuance of shares	160,501	13,200	1,351,104	613,209
Share issuance costs	-	(349)	2,007	(7,241)
	160,501	12,851	1,353,111	605,968
INVESTING ACTIVITIES				
Acquistion of exploration and evaluation properties	(18,313)	(14,473)	(296,336)	(128,328)
Exploration of exploration and evaluation properties	(204,127)	(63,753)	(694,635)	(371,187)
	(222,440)	(78,226)	(990,971)	(499,515)
(Decrease) increase in cash	(598,317)	(105,396)	(1,268,768)	(752,848)
Cash at beginning of period	842,405	120,059	1,512,856	767,511
Cash at end of period	$ 244,088	$ 14,663	$ 244,088	$ 14,663
Supplemental cash flow information:				
Non-cash transactions eliminated from the consolidated statements of cash flows:				
Depreciation capitalized to exploration and evaluation properties	$ 27,855	$ 26,322	$ 82,873	$ 70,745
	$ 27,855	$ 26,322	$ 82,873	$ 70,745

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

	Common Shares		Share Option		Total
	Number	Amount	Reserve	Deficit	Equity
October 1, 2012	85,822,899	$ 14,038,609	$ 2,823,415	$ (11,422,308)	$ 5,439,716
Common shares issued for mineral	-	-	-	-	-
Private placement	4,285,785	600,009	-	-	600,009
Shares issued on option exercise	66,000	24,420	(11,220)	-	13,200
Cost of share issuance	-	(7,241)	-	-	(7,241)
Share-based payments	-	-	201,679	-	201,679
Net loss for the period	-	-	-	(1,150,721)	(1,150,721)
June 30, 2013	90,174,684	14,655,797	3,013,874	(12,573,029)	5,096,642
October 1, 2013	117,674,684	16,458,376	3,464,471	(13,108,939)	6,813,908
Private placement	-	-	-	-	-
Shares issued on agent option exercise	151,180	27,212	(12,095)	-	15,117
Shares issued on warrant exercise	10,720,000	1,340,000	-	-	1,340,000
Cost of share issuance	-	(2,007)	-	-	(2,007)
Share-based payments	-	-	203,385	-	203,385
Net loss for the period	-	-	-	(1,427,923)	(1,427,923)
June 30, 2014	128,545,864	$ 17,823,581	$ 3,655,761	$ (14,536,862)	$ 6,942,480

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

1. NATURE OF OPERATIONS

Cedar Mountain Exploration Inc. ("Cedar Mountain") was incorporated in Alberta and commenced operations on March 16, 2006. On October 18, 2007, Cedar Mountain closed its initial public offering and began trading on the TSX-Venture exchange under the symbol CED on October 29, 2007. On March 23, 2012, Cedar Mountain changed its name to Graphite One Resources Inc. ("Graphite One" or the "Company") and adopted symbol GPH on the TSX Venture exchange effective March 27, 2012. On June 11, 2012 the Company began trading in the over the counter market in the United States on the OTCQX under the symbol GPHOF. Graphite One is the parent company of its consolidated group. The Company's head office address is 160, 1209 – 59th Avenue SE, Calgary, AB, T2H 2P6.

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.

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, 2014. The accounting policies applied in the preparation of these financial statements are consistent with those applied and disclosed in the Company's consolidated financial statements for the year ended September 30, 2013.

The unaudited condensed interim consolidated financial statements have been authorized for issue by the Board of Directors of the Company on August 28, 2014.

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, 2013.

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 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.

<u>Exploration and evaluation properties</u>: The Company is required to make significant judgments regarding the capitalization of exploration and evaluation properties expenditures. The Company is also required to make significant judgments on the ongoing feasibility of mineral exploration, and whether there are indicators that the right to explore the specific area has or will expire, that further exploration and evaluation plans have changed, or whether development of a specific area is unlikely to recover existing

exploration and evaluation property costs. If any of these indicators are present, management would need to assess whether the exploration and evaluation properties should be impaired.

Estimates and assumptions:

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

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

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

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

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

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

4. SIGNIFICANT ACCOUNTING POLICIES

Refer to the Company's annual consolidated financial statements for the year ended September 30, 2013 and 2012 (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 for annual periods beginning on or after January 1, 2015

IFRS 9 - Financial Instruments replaces the current standard *IAS 39 Financial Instruments: Recognition and Measurement,* replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

5. ACCOUNTS RECEIVABLE

The Company has $16,567 (September 30, 2013 - $16,674) receivable from the Government of Canada due to statutory credits and refunds and has classified these receivables as non-financial assets.

6. EQUIPMENT

	Analytical Equipment	Mobile Equipment	Sample Preparation Lab	Total Equipment
Cost				
Balance, September 30, 2012	$ 61,414	$ 117,399	$ 193,321	$ 372,134
Additions	-	-	-	-
Disposals	-	-	-	-
Balance, September 30, 2013	$ 61,414	$ 117,399	$ 193,321	$ 372,134
Additions	-	-	-	-
Disposals	-	-	-	-
Balance, June 30, 2014	$ 61,414	$ 117,399	$ 193,321	$ 372,134
Accumulated depreciation				
Balance, September 30, 2012	$ 27,635	$ 17,963	$ 23,929	$ 69,527
Depreciation for the year	12,284	23,977	61,170	97,431
Balance, September 30, 2013	39,919	41,940	85,099	166,958
Depreciation for the year	9,210	19,135	54,527	82,872
Balance, June 30, 2014	$ 49,129	$ 61,075	$ 139,626	$ 249,830

	Analytical Equipment	Mobile Equipment	Sample Preparation Lab	Total Equipment
Net Book Value				
September 30, 2012	$ 33,779	$ 99,436	$ 169,392	$ 302,607
September 30, 2013	$ 21,495	$ 75,459	$ 108,222	$ 205,176
June 30, 2014	$ 12,285	$ 56,324	$ 53,695	$ 122,304

7. INVESTMENT

On April 28, 2011, the Company sold the Lemon Lake exploration and evaluation property located in British Columbia, Canada in exchange for an 11% ownership interest represented by 400,000 common shares with a fair value of $20,000 of Metalogic Exploration Inc. (“Metalogic”), a newly incorporated private Canadian corporation. No indicators of impairment of its investment were identified by the Company at June 30, 2014.

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. Graphite Creek
Balance - September 30, 2012	**$**	**4,444,125**
Acquisition		128,328
Analysis		39,019
Geological consulting		283,965
Fieldwork		617,780
Balance - September 30, 2013	**$**	**5,513,217**
Acquisition		296,336
Analysis		43,462
Geological consulting		229,841
Fieldwork		504,204
Balance - June 30, 2014	**$**	**6,587,060**

Summary		
Acquisition	$	1,150,976
Exploration		5,436,084
Balance - June 30, 2014	**$**	**6,587,060**

Summary		
Acquisition	$	265,183
Exploration		5,248,034
Balance - September 30, 2013	**$**	**5,513,217**

Graphite Creek

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

September 30, 2012, the Company made cash payments to the vendor of the Graphite Creek project totaling USD 75,000. Also during the year ended September 30, 2012, the Company satisfied the entire USD 1,525,000 spending commitment required under the option agreement. During the year ended September 30, 2013, the Company made cash payments to the vendor totalling USD 100,000. On February 26, 2014, the Company made its final payment to the vendor under the agreement in the amount of USD 250,000. Upon making this payment, all obligations under the option agreement have been met.

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

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

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

Geographic segments

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

9. TRADE AND OTHER ACCOUNTS PAYABLE

	June 30, 2014	September 30, 2013
Financial liabilities		
Trade payables	$ 60,086	$ 288,019
Accrued liabilities	20,431	200,294
	$ 80,517	$ 488,313

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 June 30, 2014 are 128,545,864 (September 30, 2013 – 117,674,684).

During the nine months ended June 30, 2014, 10,720,000 warrants were exercised for total proceeds of $1,340,000. Additionally, 151,180 agent options were exercised for proceeds of $15,118.

The following share transactions occurred during the year ended September 30, 2013:

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

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

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

In connection with the $2.2 million private placement, the Company has paid finders' fees totalling $160,000 and issued 2,000,000 non-transferrable share purchase warrants, each such warrant entitles the holder to acquire one additional common share of the Company at a price of $0.10 for a period of 18 months following the date is issuance.

10.3 Warrants

The following table summarizes activity related to warrants:

	Warrants	Weighted Average Exercise Price
Balance, September 30, 2012	33,564,000	$ 0.400
Issued	31,785,785	$ 0.140
Expired/cancelled	(17,389,000)	$ 0.450
Balance, September 30, 2013	47,960,785	$ 0.208
Issued	-	$ -
Exercised	(10,720,000)	$ 0.125
Expired/cancelled	(16,175,000)	$ 0.350
Balance, June 30, 2014	**21,065,785**	**$ 0.140**

As At	June 30, 2014		September 30, 2013		
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
-	-	-	16,175,000	0.350	0.4
4,285,785	0.200	3.6	4,285,785	0.200	4.4
6,004,500	0.125	2.2	9,879,500	0.125	2.9
10,775,500	0.125	2.2	17,620,500	0.125	3.0
21,065,785	0.139	2.5	47,960,785	0.208	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 nine months June 30, 2014, 900,000 options (2013 – 1,355,000) were granted to directors, officers and consultants of the Company. Each option has an exercise price of $0.17, expiring 5 years from the date of grant. Of the 900,000 options (2012 – 1,355,000) granted, 300,000 options (2012 – 1,355,000) vested immediately with the remaining vesting over a one year period. With respect to these options, $172,166 in share based payments was recorded during the nine months ended June 30, 2014.

The fair value of the share options granted in the year ended September 30, 2013 and the nine months ended June 30, 2014 was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following weighted average assumptions:

	Nine Months Ended June 30, 2014	**Year Ended September 30, 2013**
Strike Price	$0.17	$0.18
Market Price	$0.17	$0.16
Risk free interest rate	1.84%	1.78%
Expected option life	5 years	5 years
Expected stock price volatility	122%	120%
Dividend payments during life of option	Nil	Nil
Expected forfeiture rate	Nil	Nil
Fair value per option	$0.14	$0.13

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, 2012	7,800,000	$ 0.26
Issued	3,955,000	0.18
Expired/cancelled	(1,530,000)	0.29
September 30, 2013	10,225,000	0.23
Issued	900,000	0.17
Expired/cancelled	(450,000)	0.24
June 30, 2014	**10,675,000**	**$ 0.22**

As at June 30, 2014				**As at September 30, 2013**			
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)**
-	-	-	-	150,000	150,000	0.150	0.3
950,000	950,000	0.150	1.0	950,000	950,000	0.150	1.7
200,000	200,000	0.300	1.5	200,000	200,000	0.300	2.2
300,000	300,000	0.280	1.7	300,000	300,000	0.280	2.4
1,300,000	1,300,000	0.270	1.8	1,300,000	1,300,000	0.270	2.6
2,975,000	2,975,000	0.280	2.7	3,275,000	3,275,000	0.280	3.4
175,000	175,000	0.280	3.0	175,000	175,000	0.280	3.7
1,275,000	1,275,000	0.200	3.3	1,275,000	1,275,000	0.200	4.0
2,000,000	2,000,000	0.165	4.2	2,000,000	2,000,000	0.165	5.0
600,000	450,000	0.175	4.2	600,000	-	0.175	5.0
600,000	300,000	0.170	4.3	-	-	-	-
300,000	300,000	0.170	4.4	-	-	-	-
10,675,000	10,225,000	0.221	3.0	10,225,000	9,625,000	0.227	3.5

10.5 Agent Options

The following table summarizes activity related to Agent Options

	Agent Options	Weighted average exercise price	
September 30, 2012	3,833,090	$	0.21
Issued	2,000,000		0.10
Exercised	(66,000)		0.20
Expired	(713,090)		0.26
September 30, 2013	**5,054,000**		**0.16**
Issued	-		-
Exercised	(151,180)		0.10
Expired	(3,054,000)		0.20
June 30, 2014	**1,848,820**	**$**	**0.10**

As at June 30, 2014			As at September 30, 2013		
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)
-	-	-	3,054,000	0.20	0.4
439,180	0.10	0.7	590,360	0.10	1.4
1,409,640	0.10	0.7	1,409,640	0.10	1.5
1,848,820	0.10	0.7	5,054,000	0.16	0.8

* All agent options outstanding at June 30, 2014 and September 30, 2013 were fully vested.

The share price on the date of exercise of the 151,180 agent options in the nine months ended June 30, 2014 was $0.21.

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

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

	Nine Months Ended June 30, 2013	Year Ended September 30, 2013
Strike Price	n/a	$0.10
Market Price	n/a	$0.16
Risk free interest rate	n/a	1.71%
Expected option life	n/a	1.5 years
Expected stock price volatility	n/a	109%
Dividend payments during life of option	n/a	Nil
Expected forfeiture rate	n/a	Nil
Fair value per agent option	n/a	$0.10

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 Inc. ("CC")	CC is a private company controlled by a former officer and director of the Company. CC provided management services to the Company.
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.
DH Smith Resource Advisory Corp ("Smith")	Smith is a private company controlled by a director of the company. Smith provides management services to the Company.

11.1 Related party transactions

Services provided for the nine months ended June 30, 2014	Management Services $	IR Consulting $	Geological Services $
CC Management Inc.	175,000	-	-
878160 Alberta Ltd.	22,500	-	90,000
Huston Financial Corp.	134,572	65,625	-
DH Smith Resource Advisory Corp.	66,664	-	-

Services provided for the nine months ended June 30, 2013	Management Services $	IR Consulting $	Geological Services $
CC Management Inc.	112,500	-	-
878160 Alberta Ltd.	45,000	-	65,000
Huston Financial Corp.	33,750	101,250	-

The above transactions relate to consulting fees incurred by the Company with exception to CC Management Inc. which includes $125,000 severance paid to an officer and director of the Company and Huston Financial Corp. which includes a bonus of $50,000 paid to an officer and director of the Company. Management services costs are included in Management fees and salaries and IR consulting expenses are included in Marketing and investor relations in the consolidated statements of loss and comprehensive loss. Geological services are capitalized to Exploration and evaluation properties in the consolidated statements of financial position.

The Company pays a company with common directors for monthly office rent and general operating costs for an office in one of the Company's locations. The office rental and operating costs are shared between several companies, and the Company only pays its pro rata share of the total cost of the office rental and related costs. The Company's share of office rent and basic operating costs was $71,034 for the nine months ended June 30, 2014 (2013 - $100,384).

Amounts owing to related parties are non-interest bearing, unsecured and due on demand. The transactions were in the normal course of operations. At June 30, 2014, the Company owed $35,456 (2013 – $34,747) to related parties.

11.2 Key management compensation

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

	Nine months ended June 30, 2014	Nine months ended June 30, 2013
Consulting fees	$ 429,361	$ 357,500
Severance	125,000	-
Benefits	47,061	20,644
Salary	54,000	44,000
Stock options	39,000	418,000
	$ 694,422	$ 840,144

12. MANAGEMENT OF CAPITAL

The Company defines capital that it manages as equity.

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

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

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

13. RISK MANAGEMENT

13.1 Financial Risk Management

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

a. Credit risk

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

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

b. Liquidity risk

Liquidity risk is the risk that the Company is not able to meet its financial obligations as they fall due. As at June 30, 2014, the Company had working capital of $213,116, 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 June 30, 2014, the Company had cash of $244,088 to settle current liabilities of $80,517. 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 $244,088 in cash at June 30, 2014, 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 June 30, 2014, the Company has certain monetary items denominated in United States Dollars. Based on these net exposures, a 10% appreciation or depreciation of the Canadian Dollar against the United States Dollar would result in an increase or decrease of $750 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. COMMITMENTS

The Company entered into an agreement effective February 1, 2014 with a private company controlled by the President and CEO which provides management services to the Company. Under this agreement, the Company will pay an annual fee for services of $250,000 and, in the event of change of control of the Company, an amount equal to three times the annual fee. The agreement also provides for the payment of an amount equal to 2.5% of proceeds on any non-brokered financings with aggregate proceeds not to exceed $20 million.

Also effective February1, 2014, the Company entered into an agreement with a private company controlled by the Executive Chairman which provides management services. Under this agreement, the Company will pay an annual fee for services of $200,000 and, in the event of change of control of the Company, an amount equal to two times the annual fee.

15. SUBSEQUENT EVENTS

On August 26, 2014, the Company completed a private placement for total gross proceeds of $2,027,890. Pursuant to this private placement, the Company issued a total of 15,599,160 units (the “Units”) at a price of C$0.13 per Unit. Each Unit consists of one common share and one non-transferable common share purchase warrant (a “Warrant”). Each Warrant entitles the holder to purchase one additional common share of the Company at a purchase price of $0.20 per share during the first two years from the date of issuance and at a price of $0.25 per share during years three and four from the date of issuance. The Company paid finders' fees in the aggregate amount of $120,887.26 and issued 929,902 non-transferrable share purchase warrants, each such warrant entitling the holder to acquire one additional common share of the Company at the same price as the Warrants described above.