Vela Minerals Ltd.

Financial Statements

For the year ended October 31, 2012

(Audited)

Independent Auditors' Report

To: The Shareholders of **Vela Minerals Ltd.**

We have audited the accompanying financial statements of Vela Minerals Ltd., which comprise the statement of financial position as at October 31, 2012 and 2011 and the statements of loss and comprehensive loss, changes in equity, and cash flows for the periods then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these 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 audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal control relevant to the entity's preparation and fair presentation of the 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 controls. 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 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 financial statements present fairly, in all material respects, the financial position of Vela Minerals Ltd. as at October 31, 2012, and 2011, and its financial performance and cash flows for the periods then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

We draw attention to Note 2 of the financial statements which indicates the existence of material uncertainty related to amounts or conditions that cast significant doubt upon the Company's ability to continue as a going concern. Our opinion is not qualified in respect of this matter.

February 19, 2013

Kenway Mack Slusarchuk Stewart LLP

Calgary, Alberta

Chartered Accountants

Vela Minerals Ltd.
Statements of Financial Position
As at,

	October 31, 2012	October 31, 2011
Assets		
Current		
Cash and cash equivalents	$ 561,467	$ 18,225
Harmonized sales tax receivable	11,825	12,818
Mineral exploration tax credit receivable (note 6 & 7)	33,687	33,340
Prepayments	40,000	-
	646,979	64,383
Exploration and evaluation properties (note 7)	183,796	149,237
	$ 830,775	$ 213,620
Liabilities		
Current		
Trade and other accounts payable	$ 25,191	$ 10,188
Provision for obligation under purchase option agreement (note 8)	-	50,000
	25,191	60,188
Shareholders' equity		
Share capital (note 10)	870,641	165,000
Share option reserve	148,523	35,000
Deficit	(213,580)	(46,568)
	805,584	153,432
	$ 830,775	$ 213,620

Going concern (note 2)

Approved by the Board of Directors:

"John McCaffrey" Director *"Charles Chebry"* Director

See accompanying notes to financial statements

Vela Minerals Ltd.
Statements of Loss and Comprehensive Loss

	For the year ended October 31, 2012	For the period from incorporation on May 19, 2011 to October 31, 2011
Expenses		
Professional fees	$ 49,077	$ 11,305
Share based payments (note 10)	78,000	35,000
Office and administration	39,935	263
Net loss and comprehensive loss for the period	$ (167,012)	$ (46,568)
Weighted average number of shares outstanding	5,066,932	3,319,394
Basic and diluted net loss per common share	$ (0.03)	$ (0.01)

See accompanying notes to financial statements

Vela Minerals Ltd.
Statements of Changes in Equity

	Common Shares								
	Number of Shares		Amount		Share Option Reserve		Deficit		Total Equity
Common shares issued for cash (note 10)	4,000,000	$	165,000	$	-	$	-	$	165,000
Share based payments (note 10)	-		-		35,000		-		35,000
Net loss for the period	-		-		-		(46,568)		(46,568)
Balance as at October 31, 2011 (audited)	4,000,000	$	165,000	$	35,000	$	(46,568)	$	153,432
Common shares issued for cash (note 10)	6,199,711		861,207		-		-		861,207
Common shares issued for property (note 10)			18,750						18,750
Cost of share issuance (note 10)	-		(174,316)		-		-		(174,316)
Share based payments (note 10)	-		-		113,523		-		113,523
Net loss for the period	-		-		-		(167,012)		(167,012)
Balance as at October 31, 2012 (audited)	10,199,711	$	870,641	$	148,523	$	(213,580)	$	805,584

See accompanying notes to financial statements

Vela Minerals Ltd.
Statements of Cash Flows
For the periods ended,

	For the year ended October 31, 2012	For the period from incorporation on May 19, 2011 to October 31, 2011
Cash and cash equivalents provided by (used in)		
Operating activities		
Net loss for the period	$ (167,012)	$ (46,568)
Items not involving cash		
Share based payments (note 10)	78,000	35,000
Change in non-cash working capital items		
Harmonized sales tax receivable	993	(12,818)
Prepayments	(40,000)	-
Trade and other accounts payable	15,003	10,188
	(113,016)	(14,198)
Investing activities		
Expenditures on exploration and evaluation properties, net of recoveries (note 7)	(16,156)	(132,577)
Payment for mineral rights to properties (note 7)	(50,000)	-
	(66,156)	(132,577)
Financing activities		
Common shares issued for cash (note 10)	861,207	165,000
Share issuance costs	(138,793)	-
	741,164	165,000
Increase (decrease) in cash and cash equivalents	543,242	18,225
Cash and cash equivalents - beginning of period	18,225	-
Cash and cash equivalents - end of period	$ 561,467	$ 18,225
Cash and cash equivalents consist of cash amounts on deposit	$ 561,467	$ 18,225

See accompanying notes to financial statements

1. Description of business

Vela Minerals Ltd. ("the Company") was incorporated in Canada with limited liability under the legislation of the Province of British Columbia on May 19, 2011. The registered and records office is located at 25th Floor, 700 W Georgia Street, Vancouver, British Columbia, V7Y 1B3.

The Company is in the business of acquiring and exploring mineral properties. The Company has not yet determined whether its properties contain mineral reserves that are economically recoverable. The Company's plans are to carry out active exploration efforts on its mineral properties. The recoverability of the amounts shown for mineral 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 conduct operations, and ultimately upon future profitable production or proceeds from disposition of the mineral properties.

The Company's common shares trade on the TSX Venture Exchange under the symbol "VLA".

2. Going concern

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, which assumes that the Company will continue to operate 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. Management is aware, in making its assessment, of material uncertainties related to events or conditions that cast significant doubt upon the entity's ability to continue as a going concern.

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 financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and statement of financial position 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

Statement of compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee since inception of the Company on May 19, 2011. The financial statements were authorized for issue by the Board of Directors on February 19, 2013.

Basis of measurement
The financial statements have been prepared on the historical cost basis as set out in the accounting policies below, except for the measurement of financial instruments at fair value through profit or loss.

Functional and presentation currency
The Company`s financial statements are presented in its functional currency, Canadian dollars ("$").

Use of estimates and judgments
The preparation of the Company's financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the 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

  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*:*

  Provision for obligation under purchase option agreement: The Company recognizes provisions for an obligation under purchase option agreement to the extent that the Company has a present obligation (legal or constructive) as a result of a past event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation.

  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.

  Deferred taxes: The Company recognizes the deferred tax benefit related to deferred losses 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.

4. Significant accounting policies

Exploration and evaluation properties ("E&E")

The Company capitalizes all E&E property expenditures including costs associated with acquisition, prospecting, sampling, mapping, assaying and other work involved in evaluating the Company's E&E properties and are classified as intangible E&E assets. Costs that are incurred prior to obtaining the legal right to explore, develop or extract resources are expensed in the period they are incurred.

E&E assets are not depleted. Proceeds received from the sale of an interest in a property are credited against the carrying value of the property, with any excess included in income for the period. If the properties are sold or abandoned, these expenditures will be written off. Costs associated with administrative overhead are expensed as incurred.

E&E properties are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts may not be recoverable. Where there is evidence of impairment, the net carrying amount of the property will be written down to its fair value, with any excess included in net income for the period. The loss on impairment is reversed if the circumstances change and the net recoverable amount subsequently increases.

Technical feasibility and commercial viability of extracting a mineral resource is considered to be determinable when proved or probable reserves are determined to exist. Upon determination of proved or probable reserves, intangible exploration and evaluation assets attributable to those reserves are first tested for impairment and then reclassified from E&E assets to property, plant and equipment.

Cash and cash equivalents

Cash and cash equivalents include amounts on deposit with financial institutions and readily convertible, highly liquid investments with maturities of three months or less on inception that are expected to be used to fund current operations.

Financial instruments

Recognition and measurement

Financial assets and financial liabilities are recognized on the Company's statement of financial position when the Company becomes party to the contractual provisions of the instrument.

Financial instruments are measured at fair value on initial recognition of the instrument. Measurement in subsequent periods depends on whether the financial instrument has been classified as "fair value through profit or loss", "held-to-maturity", "loans and receivable", "available-for-sale" ("AFS"), or "financial liabilities at fair value through profit or loss" and "financial liabilities measured at amortized cost" as defined by IAS 39, "Financial Instruments: Recognition and Measurement". Fair value through profit or loss financial assets or liabilities are measured at fair value and changes in fair value are recognized in net income. AFS financial instruments are measured at fair value and changes in fair value are recognized in comprehensive income. Loans and receivables and held to maturity assets are measured at amortized cost. Other financial liabilities are measured at amortized cost.

Transaction costs are included in the initial carrying value of financial instruments, except for those instruments classified as fair value through profit or loss, and are amortized into income using the effective interest rate method.

Financial assets are de-recognized when the contractual rights to the cash flows from the financial asset expire or when the contractual rights to those assets are transferred. Financial liabilities are derecognized when the obligation specified in the contract is discharged, cancelled or expired.

The Company's financial assets and liabilities are classified and measured as follows:

- Cash and cash equivalents are classified as fair value through profit or loss.
- Trade and other accounts payable are classified as other liabilities.

The fair value of financial instruments is measured within a 'fair value hierarchy' which comprises the following three levels:

Level 1: Valuations based on quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2: Valuations based on directly or indirectly observable inputs in active markets for similar assets or liabilities, other than Level 1 prices, such as quoted interest or currency exchange rates; and

Level 3: Valuations based on significant inputs that are not derived from observable market data, such as discounted cash flow methodologies based on internal cash flow forecasts.

Impairment

Financial assets, other than those classified as fair value through profit or loss and AFS, are assessed for indicators of impairment at the end of each reporting period. A financial asset or group of financial assets is considered impaired if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Income taxes

Income tax expense comprises current and deferred tax. Income tax is recognized in profit or loss, except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

Deferred tax is recognized using the liability method of tax allocation accounting. Temporary differences arising from the difference between the tax basis of an asset or liability and its carrying amount on the statement of financial position are used to calculate deferred income tax liabilities or assets. Deferred income tax liabilities or assets are calculated using tax rates anticipated to apply in the periods that the temporary differences are expected to reverse. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority. A deferred tax asset will be recognized to the extent that the Company considers it to be probable that future taxable profits will be available against which the temporary differences can be utilized.

Mineral exploration tax credits

Provincial Taxation authorities provide tax incentives for undertaking mineral exploration directives in certain areas. Refundable mineral exploration tax credits on eligible mineral exploration expenditures incurred in those areas are accrued when there is reasonable assurance that the credits will be realized and are treated as a reduction of the capitalized exploration costs of the respective mineral properties. Mineral exploration tax credits are recoverable from the Government of British Columbia and are subject to government approval.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) as a result of a past event, if it is probable that the Company will be required to settle the obligation and a reliable estimate can be made of the amount of the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognized as a finance cost.

Share based payments

The Company has a stock option plan that allows certain officers, directors and related company employees to acquire shares of the Company. The fair value of the options granted is recognized as an expense or capitalized in the same manner in which the salaries for the related employees are treated, with a corresponding increase in equity.

Share-based payments to employees and others providing similar services are measured at the grant date at the fair value of the instruments issued. Fair value is determined using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. The amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest. Each tranche in an award with graded vesting is accounted for as a separate grant with a different vesting date and fair value.

The Company measures transactions with third parties where stock is issued in exchange for goods or services based on the fair value of the consideration received, or the fair value of the stock issued, whichever is more reliably measurable. The value of the goods or services is recorded at the earlier of the vesting date, or the date the goods or services are received.

The offset to the recorded cost is to share option reserve. Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments originally recorded as share option reserve are transferred to share capital.

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 or common significant influence. 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.

Net income or loss per common share

Net income or loss per common share is computed by dividing the net income or loss by the weighted average number of common shares outstanding during the period. The treasury stock method of calculating diluted per share amounts is used whereby any proceeds from the exercise of stock options or warrants that are in-the-money are assumed to be used to purchase common shares of the Company at the average market price during the period. For periods in which the Company is in a net loss position, the effect of the exercise of stock options and warrants is anti-dilutive.

5. Accounting standards issued but not yet effective

The IASB has issued a number of new standards, amendments to standards and interpretations that are not yet effective as of October 31, 2012, and have not been applied in preparing these statements. The Company is currently assessing the impact of these new standards; however it anticipates that these new standards will not have a material impact on the Company’s financial statements.

New standard IFRS 9 “Financial Instruments”
This new standard is a partial replacement of International Accounting Standards (“IAS”) 39 “Financial Instruments: Recognition and Measurement”. This new standard is effective for annual periods beginning on or after January 1, 2015.

The standard simplifies existing standards for the recognition and measurement of financial instruments. All financial instruments would be classified into one of two basic categories; those measured at amortized cost or those measured at fair value. The classifications would be based on both the characteristics of the instrument and the business model under which it is managed.

New standard IFRS 11 "Joint Arrangements"
This new standard provides for a more substance based reflection of joint arrangements by focusing on the rights and obligations of the arrangement, rather than its legal form (as is currently the case). The standard addresses inconsistencies in the reporting of joint arrangements by requiring a single method to account for interests in jointly controlled entities. IFRS 11 supersedes IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Ventures. IAS 28 Investments in Associates and Joint Ventures (revised 2011) has been amended to conform to changes based on the issuance of IFRS 10 and IFRS 11. The standard is effective for annual periods beginning on or after January 1, 2013.

New standard IFRS 13 "Fair Value Measurement"
The new standard defines fair value, provides guidance on its determination, and requires disclosures about fair value measurements. This changes how fair value is calculated with a focus on measuring a market based exit price. This combination of IFRS and US Generally Accepted Accounting Principles into a single source does not change how the fair value is used with respect to the items that should be measured or disclosed at fair value. IFRS 13 is effective for annual periods beginning January 1, 2013.

6. Mineral exploration tax credits

Qualifying exploration expenditures in British Columbia are subject to a 20% refundable provincial tax credit provided that these costs are not incurred by the Company to meet an expenditure obligation arising pursuant to an agreement to issue flow-through shares. In addition, costs incurred on the Company's Rossland property are subject to an additional 10% refundable tax credit because the Company's properties are located within an area prescribed by the British Columbia government as being significantly impacted by the Mountain Pine Beetle. Qualifying exploration expenditures incurred for the period ended October 31, 2012 of $1,156 (2011 - $111,134) that resulted in mineral tax credits of $347 (2011 - $33,340) have reduced the accumulated capitalized balance for the mineral properties.

7. Exploration and evaluation properties

		Rossland
Additions:		
Initial option cash payment	$	20,000
Provision for an additional option cash payment (note 8)		50,000
Assaying & petrographic		17,839
Claims and land use		1,443
Geological consulting		68,561
Travel & accommodations		10,594
Vehicle usage		8,326
Field supplies		5,814
Mineral tax credits (note 6)		(33,340)
Balance as at October 31, 2011	$	149,237
Additions:		
Additional option payment in shares		18,750
Assaying & petrographic		1,156
Geological consulting		15,000
Mineral tax credits (note 6)		(347)
Balance as at October 31, 2012	$	183,796

Rossland property

On June 30, 2011, the Company signed an option agreement to acquire a 100% interest in certain mineral claims located in the Trail and Rossland area of southern British Columbia. Under the terms of the Purchase Option Agreement, the Company paid cash consideration of $20,000 with an additional $50,000 to be paid upon listing on the TSX Venture exchange (the "Exchange"). The Company will also issue an aggregate of 500,000 shares in the Company pursuant to the option agreement in four tranches of 125,000 shares each over a one year period beginning with the date of listing. During the year, the Company made cash payments of $50,000 and also issued 125,000 shares with a value of $18,750 (2011 - $20,000 cash payment) to the vendor of the Rossland property upon listing of the Company on the Exchange on October 24, 2012.

8. Provision for obligation under purchase option agreement

The Company's purchase option agreement discussed in note 7 is comprised of both an obligation to pay cash and issue shares of the Company to the vendor of the Rossland property in order to retain the option to purchase the property. The Company can forfeit this option at any time by ceasing to make cash payments or issue shares. As the Company has the ability to forfeit the purchase option at any time and as the remaining share issuances are not due until subsequent to year end, no provision was recorded for the remaining share issuances.

Additionally, the Company agrees to pay a royalty in an amount equal to 2% of net proceeds on all minerals produced from the Rossland property and sold by the Company. The Company has the option to purchase the royalty at any time by making a payment of cash equal to $2,000,000. As there has been no minerals produced and sold by the Company from the property, no royalty amounts are payable and thus no provision has been recognized.

9. Deferred income taxes

Reconciliation of the statutory combined federal and provincial income taxes to the effective income taxes for the periods ended:

	October 31, 2012	October 31, 2011
Loss before income taxes	$ 167,012	$ 46,568
Statutory rate	25.25%	26.50%
Expected income tax recovery	42,171	12,341
Effect of tax rate changes	(222)	-
Non-deductible expenses	(19,695)	(9,275)
Unrecognized deferred tax assets	(22,254)	(3,066)
Deferred income taxes recovery	$ -	$ -

The unrecognized deferred tax asset is comprised of the following temporary differences tax affected at 25%:

	October 31, 2012	October 31, 2011
Non-capital losses carried forward	$ 38,534	$ 2,752
Share issuance and incorporation costs	28,356	735
Unrecognized deferred tax asset	$ 66,890	$ 3,487

The Company has Canadian non-capital losses of $154,136 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
2011	$ 11,008	2031
2012	143,128	2032
	$ 154,136	

10. Share capital

Authorized

Unlimited number of common shares

Issued

Shares issued and outstanding as at October 31, 2012 are 10,199,711 (2011 – 4,000,000). The following share transactions occurred during the year ended October 31, 2012:

On October 22, 2012, the Company completed its initial public offering (the "Offering") through its agent, Macquarie Private Wealth Inc. (the "Agent"), of 5,074,711 common shares at a price of $0.15 per common share for gross proceeds of $761,207. The Company paid the Agent a commission of $68,509 which is equal to 9% of the gross proceeds of the Offering. The Agent was also paid a corporate finance fee of $25,000 plus applicable taxes for its services in connection with the Offering. The Agent was also issued 507,471 options to acquire up to 507,471 common shares for a two year period following listing on the TSX Venture exchange expiring October 24, 2014.

Pursuant to the purchase option agreement (note 7), the Company issued 125,000 common shares upon completion of the Offering and expects to issue an additional 375,000 common shares over a one year period.

In November and December, 2011, the company issued a total of 1,000,000 common shares through private placement for gross proceeds of $100,000 at a price of $0.10 per common share.

The following share transactions occurred during the period from incorporation on May 19, 2011 to October 31, 2011:
In June of 2011, the Company issued 1,000,000 common shares through private placement at $0.015 and 3,000,000 common shares at $0.05 for gross proceeds of $165,000. In recognition of the difference in market value, the Company has recorded share based payments in the amount of $35,000.

<u>Shares held in escrow</u>

4,050,000 common shares are subject to escrow as at October 31, 2012. Pursuant to the underlying escrow agreements, 10% of the shares under escrow were released upon listing on the exchange on October 24, 2012 and thereafter, 15% will be released every six months.

<u>Share based compensation</u>

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, 30 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 final anniversary of the date the option was granted which concludes the option term. Options granted under the plan may not exceed ten years and, unless otherwise determined by the Company's directors, vest one third on the date the option was granted and one third annually over two years, and shall not be exercisable at less than the price determined by policy or policies of the stock exchange(s) on which the Company's common shares are then listed. Notwithstanding the foregoing, Options issued to Consultants performing Investor Relations Activities shall vest over 12 months with no more than 25% of the Options vesting in any three month period. Occasionally, the Company issues stock options to agents which do not fall under the plan.

The weighted average fair value of the stock options granted in the year was $0.06 and was estimated on the date of grant using the Black-Scholes Option Pricing Model, with the following assumptions:

	October 31, 2012	**October 31, 2011**
Strike price	$ 0.15	n/a
Stock price	$ 0.10 - $ 0.15	n/a
Risk free interest rate	1.40% - 1.46%	n/a
Expected option life	5 Years	n/a
Expected stock price volatility	80%	n/a
Dividend payments during life of option	Nil	n/a
Expected forfeiture rate	Nil	n/a

The expected life is based on current expectations. The expected volatility reflects management's assumption of expected volatility over the life of the option.

During the year ended October 31, 2012, the Company granted options to purchase up to 1,200,000 shares of the Company's stock to directors and officers with an exercise price of $0.15. These options expire five years from the date the Company became listed on the TSX-V Exchange. The Company used the Black-Scholes Option Pricing Model to estimate a fair value of $78,000 for these grants.

Option pricing models require the input of highly speculative assumptions, including the expected future price volatility of the Company's shares. 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	Exercise Price
Issued	1,200,000	$ 0.15
Cancelled *	(450,000)	0.15
October 31, 2012	750,000	$ 0.15

* On July 11, 2012 the number of options granted to officers and directors was reduced from 1,050,000 to 1,000,000 following a reduction in the number of shares being offered in the Offering. On August 14, 2012, the number of stock options granted was further reduced to 600,000.

The Company had the following stock options outstanding:

				October 31, 2012
Number of options	**Number of vested options**	**Weighted average exercise price**	**Year of expiry**	**Weighted average remaining contractual life**
750,000	750,000	$ 0.15	2017	4.98 years

Agent Options

The fair value of the Agent options granted in the year ended October 31, 2012 of $35,523 (2011 - nil) was estimated on the date of grant using the Black-Scholes Option Pricing Model with the following assumptions:

	October 31, 2012	October 31, 2011
Strike price	$ 0.15	n/a
Stock price	$ 0.15	n/a
Risk free interest rate	1.12%	n/a
Expected option life	2 Years	n/a
Expected stock price volatility	80%	n/a
Dividend payments during life of option	Nil	n/a
Expected forfeiture rate	Nil	n/a

The expected life is based on current expectations. The expected volatility reflects management's assumption of expected volatility over the life of the option.

The following table summarizes activity related to Agent Options

	Agents Options	Exercise Price
Issued	507,471	$ 0.15

The Company had the following Agent options outstanding:

				October 31, 2012
Number of Agents options	**Number of vested Agent options**	**Weighted average exercise price**	**Year of expiry**	**Weighted average remaining contractual life**
507,471	507,471	$ 0.15	2014	1.98 years

11. Related party transactions and balances

Relationships	Nature of the relationship
Novus Leadership Services Ltd. ("Novus")	Novus is a private company controlled by an officer and current director of the Company. Novus provides management services to the Company.
Tyro Industries Corp. ("Tyro")	Tyro is a private company controlled by an officer and current director of the Company. Tyro provides 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, and Chief Executive Officer, Directors, and Chief Financial Officer.

Management services paid to Novus commenced in October 2012 for $4,000 per month. There were no other charges to the Company from Novus or Tyro during the year ended October 31, 2012 and the period from incorporation on May 19, 2011 to October 31, 2011.

Key Management compensation includes:

	October 31, 2012	October 31, 2011
Share based payments	$ 78,000	$ 35,000

12. Financial instruments, capital management, and risk management

Financial instrument fair value

The Company's financial instruments recognized on the statement of financial position consist of cash and cash equivalents, and trade and other accounts payable. Cash and cash equivalents are carried at fair value. Due to their short-term nature, the carrying values of trade and other accounts payable approximate fair value.

Capital management

The Company considers its capital to be the total shareholders' equity which at period end was $805,584.

The Company's objectives in managing its capital are: 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. The Company is not subject to any externally imposed capital requirements. Funds are secured, when necessary, through equity capital raised through sale of common shares.

Market risks

Interest risk

Interest rate risk is the risk arising from the effect of changes in prevailing interest rates on the Company's financial instruments. Pursuant to the Initial Public Offering which closed on October 22, 2012, the Company had $561,467 in cash as at October 31, 2012 which is held in a non- interest bearing account, and is not currently subject to interest rate risk.

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 receivable balances are from tax authorities, therefore the Company is not subject to significant credit risk.

Liquidity risk

Liquidity risk is the risk that the Company will not meet its financial obligations as they fall due. As at October 31, 2012, the Company has a working capital balance of $621,788. In order for the Company to continue to perform an exploration program on its properties, and to continue operations, it will require additional equity financing.

13. Subsequent event

On January 3, 2013, the Company announced that it had granted 260,000 stock options to two new directors of the Company. The options have been issued under the Company's existing Stock Option Plan and are exercisable into one Share of the Company at a price of $0.175 per Share for a term of five years and vest immediately.