CANADA STRATEGIC METALS INC.
(Formerly Canada Rare Earths Inc.)
(An Exploration Stage Company)

Financial Statements
Years Ended January 31, 2013 and 2012
(Expressed in Canadian Dollars)

M A N N I N G   E L L I O T T
C H A R T E R E D   A C C O U N T A N T S

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Canada Strategic Metals Inc.

We have audited the accompanying financial statements of Canada Strategic Metals Inc. which comprise the statement of financial position as at January 31, 2013 and the statements of operations and comprehensive loss, cash flows and changes in shareholders' equity for the year then ended, and the related notes comprising 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 as issued by the International Accounting Standards Board, 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on our 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, we 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 control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained in our audit 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 Canada Strategic Metals Inc. as at January 31, 2013 and its financial performance and cash flows for the year then ended in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Canada Strategic Metals Inc. to continue as a going concern.

MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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Other Matter

The financial statements of Canada Strategic Metals Inc. as at January 31, 2012 and for the year then ended were audited by another firm of independent auditors who express an unmodified opinion on those financial statements in their report dated May 28, 2012.

Manning Elliott LLP

CHARTERED ACCOUNTANTS
Vancouver, British Columbia
May 29, 2013

CANADA STRATEGIC METALS INC.
(Formerly Canada Rare Earths Inc.)
(An Exploration Stage Company)
Statements of Financial Position
(Expressed in Canadian Dollars)
As at January 31

		2013		2012
ASSETS				
Current				
Cash	$	453,304	$	197,584
Amounts receivable (note 4)		570,473		717,015
Prepaid expenses		-		10,000
		1,023,777		924,599
Exploration and Evaluation Assets (note 5)		2,647,761		1,911,044
Property and Equipment (note 6)		94,194		121,107
	$	3,765,732	$	2,956750
LIABILITIES				
Current				
Accounts payable and accrued liabilities (note 7)	$	796,337	$	633,588
Premium on flow through shares		146,875		-
		943,212		633,588
SHAREHOLDERS' EQUITY (DEFICIENCY)				
Share Capital (note 8)		27,944,541		26,516,969
Share-based Payments Reserve (note 8(c))		2,795,568		2,570,949
Deficit		(27,917,589)		(26,764,756)
		2,822,520		2,323,162
	$	3,765,732	$	2,956750

NATURE OF BUSINESS AND GOING CONCERN (Note 1)
COMMITMENTS (Note 11)
SUBSEQUENT EVENTS (Note 14)

Approved on behalf of the Board on May 29, 2013:

"Jean-Sébastien Lavallée"
…………………………………………………
Jean-Sébastien Lavallée, Director

"Chad McMillan"
…………………………………………………
Chad McMillan, Director

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

CANADA STRATEGIC METALS INC.
(Formerly Canada Rare Earths Inc.)
(An Exploration Stage Company)
Statements of Operations and Comprehensive Loss
(Expressed in Canadian Dollars)
For the years ended January 31, 2013 and 2012

		2013		2012
Operating Expenses				
Accounting, audit and legal fees	$	140,425	$	131,793
Amortization		26,913		16,654
Consulting fees		71,664		100,062
Interest and bank charges		1,145		2,310
Investor relations and communications		103,373		251,526
Management fees		138,000		133,500
Office and administration		50,790		80,409
Rent		17,703		61,548
Share-based payments (note 8(c))		180,605		843,142
Transfer agent, listing and filing fees		48,132		44,452
Travel and entertainment		53,349		85,343
Operating Loss Before Other Items		(832,099)		(1,750,739)
Realized gain on sale of marketable securities		-		27,585
Impairment of exploration and evaluation assets		(320,468)		(72,476)
Foreign exchange gain (loss)		(266)		271
Net loss and comprehensive Loss for Year	$	(1,152,833)	$	(1,795,359)
Earnings (Loss) Per Share – Basic and Diluted				
Loss per share from continuing operations – basic and diluted	$	(0.04)	$	(0.11)
Weighted Average Number of Common Shares Outstanding		27,620,378		16,760,778

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

CANADA STRATEGIC METALS INC.
(Formerly Canada Rare Earths Inc.)
(An Exploration Stage Company)
Statements of Cash Flows
(Expressed in Canadian Dollars)
Years Ended January 31

		2013		2012
Operating Activities				
Loss from continuing operations	$	(1,152,833)	$	(1,795,359)
Items not involving cash				
Amortization		26,913		16,654
Share-based payments		180,605		843,142
Realized gain on marketable securities		-		(27,585)
Impairment of exploration and evaluation assets		320,467		72,476
Changes in non-cash working capital				
Amounts receivable		146,542		(187,366)
Accounts payable and accrued liabilities		162,748		211,169
Prepaid expense		10,000		(10,000)
Cash Used in Operating Activities		(305,558)		(876,869)
Investing Activities				
Proceeds from sale of marketable securities		-		82,989
Acquisition of property and equipment		-		(134,564)
Expenditures on exploration and evaluation assets		(587,684)		(1,537,535)
Cash Used in Investing Activities		(587,684)		(1,589,110)
Financing Activities				
Issuance of share capital, net of issuance costs		1,148,962		2,567,060
Cash Provided by Financing Activities		1,148,962		2,567,060
Net Change in Cash for the Year		255,720		101,081
Cash, Beginning of Year		197,584		96,503
Cash, End of Year	$	453,304	$	197,584

See **Note 12** for non-cash transactions and supplemental disclosure with respect to cash flows.

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

CANADA STRATEGIC METALS INC.
(Formerly Canada Rare Earths Inc.)
(An Exploration Stage Company)
Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)
Years Ended January 31, 2013 and 2012

	Share Capital		Share subscriptions received	Share-based payments reserve	Deficit	Total
	Number of shares	Share $	$	$	$	$
January 31, 2011	11,437,911	23,553,245	34,800	1,747,171	(24,969,397)	365,819
Shares issued for cash	5,314,460	2,537,734	(34,800)	-	-	2,502,934
Shares issued for property	850,000	342,500	-	-	-	342,500
Share issue costs		(131,507)	-	-	-	(131,507)
Warrants exercised	722,497	179,133	-	-	-	179,133
Stock options exercised	75,000	35,864	-	(19,364)	-	16,500
Share-based payments	-	-	-	843,142	-	843,142
Net loss and comprehensive loss for the year	-	-	-	-	(1,795,359)	(1,795,359)
January 31, 2012	18,399,868	26,516,969	-	2,570,949	(26,764,756)	2,323,162
Private placements	11,987,500	1,282,750	-	-	-	1,282,750
Issued for exploration assets	5,500,000	469,500	-	-	-	469,500
Premium on flow-through shares	-	(146,875)	`-	-	-	(146,875)
Share issue costs	-	(133,789)	-	-	-	(133,789)
Share issue costs – value of warrants	-	(44,014)	-	44,014	-	-
Share-based payments	-	-	-	180,605	-	180,605
Net loss and comprehensive loss for the year	-	-	-	-	(1,152,833)	(1,152,833)
January 31, 2013	35,887,368	27,944,541	-	2,795,568	(27,917,589)	2,822,520

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Canada Strategic Metals Inc. (Formerly Canada Rare Earths Inc.) (the "Company") is an exploration stage mining company. The Company was incorporated under the *Company Act* of British Columbia on February 1, 1984. The Company's principal business activity is the exploration and development of mineral exploration assets in Canada.

These financial statements have been prepared on a going concern basis, which assumes 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 business.

As at January 31, 2013, the Company has cash of $453,304 and a deficit since inception in the amount of $27,917,589. Further, the Company incurred a loss of $1,152,833 for the twelve months ended January 31, 2013 (2012 - $1,795,359). The Company has limited resources and no assurances that sufficient funding will be available to conduct further exploration and development on its exploration and evaluation assets. The Company will require additional equity financing to meet its administrative overhead costs and to continue exploration and development work on its exploration and evaluation assets.

The Company is dependent on raising funds through the issuance of shares and/or obtaining debt financing. Management believes that additional financing is available and may be sourced to allow the Company to continue its current planned activities in the normal course. There can, however, be no assurance the Company will be able to raise funds in the near future.

Should the going concern assumption prove not to be appropriate, further adjustments will be required to the carrying amounts and/or classification of the Company's assets and liabilities, and the adjustments are likely to be material.

The Company is publicly listed on the TSX Venture Exchange in Canada (the "TSX.V"), the Frankfurt Stock Exchange in Germany and the OTC Bulletin Board in the United States.

The head office, principal address and registered and records office of the Company are located at Suite 2900 - 550, Burrard Street, Vancouver, British-Columbia, V6C 0A3.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These financial statements of the Company 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 ("IFRIC").

(b) Approval of the financial statements

These financial statements were approved and authorized for issue by the Board of Directors of the Company on May 29, 2013.

(c) Basis of presentation

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities, revenue and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates.

The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that year or in the year of the revision and further years if the review affects both current and future years.

Judgments made by management in the application of IFRS that have a significant effect on the financial statements and estimates with a significant risk of material adjustment in the current and following fiscal years are discussed in note 3(i).

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently by the Company to all years presented.

(a) Exploration and evaluation assets

All direct costs related to the acquisition and exploration of exploration and evaluation assets are capitalized until the properties to which they relate are ready for their intended use, sold, abandoned or management has determined there to be impairment. If economically recoverable or reserves are developed, capitalized costs of the related property are reclassified as exploration and evaluation assets being depleted and amortized using the units-of-production method following commencement of production. Interest on borrowings incurred to finance mining assets is capitalized until the asset is capable of carrying out its intended use.

The Company recognizes mining exploration tax recoveries in the year in which the related qualifying resource expenditures are incurred, unless collection is not reasonably assured, and reduces the carrying values of exploration and evaluation assets by the respective recovery amount.

(b) Property and equipment

Property and equipment are recorded at cost. Amortization is calculated on the straight-line basis over the useful lives of the assets as follows:

Furniture and equipment	5 years
Leasehold improvements	5 years
Software license	2 years

Additions during the year are amortized at one-half the annual rates.

(i) Subsequent costs

The cost of replacing part of an item within property and equipment is recognized when the cost is incurred if it is probable that the future economic benefits will flow to the group and the cost of the item can be measured reliably. The carrying amount of the part that has been replaced is expensed. All other costs are recognized as an expense as incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Property and equipment (continued)

(ii) Impairment

The Company's tangible and intangible assets are reviewed for indications of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated. An impairment loss is recognized when the carrying amount of an asset exceeds its recoverable amount. Impairment losses are recognized in the statement of operations for the year.

The recoverable amount is the greater of the asset's fair value less costs to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

(iii) Reversal of impairment

An impairment loss is reversed if there is an indication that there has been a change in the estimates used to determine the recoverable amount. An impairment loss is reversed only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of depreciation or depletion, if no impairment loss had been recognized. An impairment loss with respect to goodwill is never reversed.

(iv) Decommissioning

Future obligations to retire an asset, including dismantling, remediation, and ongoing treatment and monitoring of the site related to normal operations are initially recognized and recorded as a liability based on estimated future cash flows discounted at a credit-adjusted risk-free rate. The decommissioning and restoration provision ("DRP") is adjusted at each reporting year for changes to factors including the expected amount of cash flows required to discharge the liability, the timing of such cash flows and the credit-adjusted risk-free discount rate.

The liability is accreted to full value over time through periodic charges to income. This unwinding of the discount is charged to finance costs in the statements of operations.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(b) Property and equipment (continued)

(iv) Decommissioning (continued)

The amount of the DRP initially recognized is capitalized as part of the related asset's carrying value and amortized to income. The method of amortization follows that of the underlying asset. The costs related to a DRP are only capitalized to the extent that the amount meets the definition of an asset and can bring about future economic benefit. For a closed site or where the asset, which generated a DRP, no longer exists, there is no longer future benefit related to the costs and, as such, the amounts are expensed. For operating sites, a revision in estimates or a new disturbance will result in an adjustment to the liability with an offsetting adjustment to the capitalized retirement cost. For closed sites, adjustments to the DRP that are required as a result of changes in estimates are charged to income in the year in which the adjustment is identified.

(c) Share-based payments

The Company has a stock option plan that is described in note 8(c). Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods using the Black-Scholes Options Pricing Model. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The offset to the recorded cost is to share-based payments reserve.

Consideration received on the exercise of stock options is recorded as share capital and the related share-based payments reserve is transferred to share capital. Where awards are forfeited because non-market based vesting conditions are not satisfied, the expense previously recognized is proportionately reversed in the year the forfeiture occurs.

(d) Unit offerings

The Company uses the residual value method with respect to the measurement of common shares and share purchase warrants issued as private placement units. The proceeds from the issue of units is allocated between common shares and share purchase warrants on a residual value basis, wherein the fair value of the common shares is based on the market value on the date of announcement of the private placement and the balance, if any, is allocated to the attached warrants.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(e) Loss per share

Basic loss per share is computed by dividing the net loss available to common shareholders by the weighted average number of shares outstanding during the reporting year. Diluted loss per share is computed using the treasury stock method. In accordance with the treasury stock method, the weighted average number of common shares outstanding is increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting years.

(f) Financial instruments

(i) Financial assets

The Company classifies its financial assets in the following categories: fair value through profit or loss ("FVTPL"), held-to-maturity ("HTM"), available-for-sale ("AFS"), and loans and receivables. The classification depends on the purpose for which the financial assets were acquired. Management determines the classification of financial assets at recognition.

Fair value through profit or los

Financial assets at FVTPL are initially recognized at fair value with changes in fair value recorded through income. Cash is included in this category of financial assets.

Held-to-maturity financial assets

HTM investments are recognized on a trade-date basis and are initially measured at fair value, including transaction costs. The Company does not have any assets classified as HTM.

Available-for sale financial assets

AFS financial assets are non-derivatives that are either designated as AFS or not classified in any of the other financial asset categories and are subsequently measured at fair value, determined by published market prices in an active market. Changes in the fair value of AFS financial assets are recognized as other comprehensive income and classified as a component of equity.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

(i) Financial assets (Continued)

Management assesses the carrying value of AFS financial assets at every reporting year and any impairment charges are also recognized in income or loss. When financial assets classified as AFS are sold, the accumulated fair value adjustments recognized in other comprehensive income are included in net income (loss). The Company does not have any assets classified as AFS.

Loans and receivables financial assets

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are classified as current assets or non-current assets based on their maturity date. Loans and receivables are carried at amortized cost less any impairment.

They are carried at amortized cost less any impairment. The impairment loss of receivables is based on a review of all outstanding amounts at year-end. Interest income is recognized by applying the effective interest rate, except for short-term receivables when the recognition of interest would not be material. Amounts receivable are included in this category of financial assets.

(ii) Financial liabilities

The Company classifies its financial liabilities in the following categories: borrowings and other financial liabilities, and financial liabilities at FVTPL.

Borrowings and other financial liabilities

Borrowings and other financial liabilities are non-derivatives and are recognized initially at fair value, net of transaction costs incurred, and are subsequently stated at amortized cost. Any difference between the amounts originally received, net of transaction costs, and the redemption value is recognized in the statement of operations over the year to maturity using the effective interest method.

Borrowings and other financial liabilities are classified as current or non-current based on their maturity date. Financial liabilities include accounts payable.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(f) Financial instruments (Continued)

(ii) Financial liabilities (Continued)

Financial liabilities at FVTPL

Financial liabilities at FVTPL are initially recognized at their fair value on the date the derivative contract is entered into and are subsequently re-measured at their fair value at each reporting date with changes in fair value recognized in operations. Transaction costs are recognized in operations as incurred. The Company does not have any liabilities classified as FVTPL.

(g) Income taxes

Income tax expense represents current tax and deferred tax. The Company records current tax based on the taxable profits for the year, which is calculated using tax rates that have been enacted or substantively enacted by the reporting date.

Deferred income taxes are accounted for using the liability method. The liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases. Deferred income tax assets and liabilities are determined for each temporary difference based on currently enacted or substantially enacted tax rates that are expected to be in effect when the underlying items of income or expense are expected to be realized. The effect of a change in tax rates or tax legislation is recognized in the year of substantive enactment. Deferred tax assets, such as non-capital loss carry-forwards, are recognized to the extent it is probable that taxable profit will be available against which the asset can be utilized.

(h) Foreign currency translation

The functional and reporting currency of the Company is the Canadian dollar. Amounts recorded in foreign currency are translated into Canadian dollars as follows:

(i) Monetary assets and liabilities, at the rate of exchange in effect as at the statement of financial position date;
(ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and
(iii) Revenue and expenses (excluding amortization, which is translated at the same rate as the related asset), at the rate of exchange on the date of the transaction.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Critical accounting estimates

The preparation of financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting year. Significant areas requiring the use of management estimates relate to determining the recoverability of exploration and evaluation assets and property and equipment, the determination of accrued liabilities, accrued site remediation, rates of amortization, the recoverability of amounts receivable, the variables used in the determination of the fair value of stock options granted and warrants issued, and the determination of the recoverability of deferred tax assets. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

(j) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events, it is probable that an outflow of resources will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made. Provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

(k) Segmented information

The Company's operations consist of a single operating segment and all operations are located in Canada.

(l) Flow-through shares

The Company finances some exploration expenditures through the issuance of flow-through shares. The resource expenditure deductions for Canadian income tax purposes are renounced to investors in accordance with the appropriate income tax legislation. When the flow-through shares are issued, the difference ("flow-through share premium") between the amount recognized in common shares and the amount the investors pay for the shares is recognized as a flow-through share related liability which is reversed into the statement of comprehensive loss as other income when the eligible exploration expenditures are incurred.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Accounting standards issued but not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the International Accounting Standards Board (IASB) or International Financial Reporting Interpretations Committee (IFRIC) that are mandatory for accounting periods beginning after February 1, 2013, or later periods. Some updates that are not applicable or are not consequential to the Company have been excluded from the list below. The Company does not expect a significant effect of adoption of the new and amended on its financial statements.

(i) New accounting standards impacting on or after February 1, 2013

IFRS 7 Financial Instruments: Disclosures in Respect of Offsetting (Amendment)

At its meeting December 13 to 15, 2012, the IASB approved amendments to IFRS 7 *Financial Instruments: Disclosures* with respect to offsetting financial assets and financial liabilities. The common disclosure requirements issued by the IASB and the Financial Accounting Standards Board in December 2012 are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a company's financial position.

IFRS 10 Consolidated Financial Statements

IFRS 10 replaces the portion of IAS 27 *Consolidated and Separate Financial Statements* that addresses the accounting for financial statements and SIC12 *Consolidation - Special Purpose Entities*. IFRS 10 establishes principles for the presentation and preparation of financial statements when an entity controls one or more entities. This standard (i) requires a parent entity (an entity that controls one or more other entities) to present financial statements; (ii) defines the principle of control and establishes control as a basis for consolidation; (iii) sets out how to apply the principle of control whether an investor controls an investee and therefore must consolidate the investee; and (iv) sets out the accounting requirements for the preparation of financial statements.

IFRS 10 may be adopted to an earlier accounting year, but in doing so, an entity must disclose the fact that it has early-adopted the standard and apply IFRS 11 *Joint Arrangements*, IFRS 12 *Disclosure of Interests in Other Entities*, IAS 27 *Separate Financial Statements* (as amended in 2012) and IAS 28 *Investments in Associates and Joint Ventures* (as amended in 2012).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Accounting standards issued but not yet effective (Continued)

(i) New accounting standards impacting on or after February 1, 2013 (Continued)

IFRS 12 Disclosure of Interests in Other Entities

IFRS 12 combines the disclosure requirements for an entity's interest in subsidiaries, joint arrangements, associates and structured entities into one comprehensive disclosure standard. This standard requires the disclosure of information that enable users of financial statements to evaluate the nature of, and risks associated with, its interest in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 Fair Value Measurement

IFRS 13 provides guidance on how to measure fair value, but does not change when fair value is required or permitted under IFRS. IFRS 13 defines fair value, sets out a single IFRS 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 with the scope of IAS 17 *Leases*; measurements that have some similarities to fair value that are not fair value, such as net realizable value in IAS 2 *Inventories*; or value in use IAS 36 *Impairment of Assets*.

IAS 27 Separate Financial Statements

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Accounting standards issued but not yet effective (Continued)

(i) New accounting standards impacting on or after February 1, 2013 (Continued)

IAS 28 Investments in Associates and Joint Ventures

IAS 28 prescribes the accounting for investments in associates and to set the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard is effective for annual years beginning on or after February 1, 2013, with early adoption permitted.

(ii) New accounting standards impacting on or after February 1, 2014

IAS 32 Financial Instruments - Presentation in Respect of Offsetting (Amendment)

At its meeting December 13 to 15, 2012, the IASB approved amendments to IFRS 7 *Financial Instruments: Disclosures* with respect to offsetting financial assets and financial liabilities. As part of this project, the IASB also clarified aspects of IAS 32 *Financial Instruments: Presentation*. The amendments to IAS 32 address inconsistencies in current practice when applying the requirements. The amendments are effective for annual years beginning on or after February 1, 2014 and are required to be applied retrospectively.

(iii) New accounting standards impacting on or after February 1, 2015

IFRS 9 Financial Instruments (2009)

IFRS 9 introduces new requirements for classifying and measuring financial assets, as follows:

- Debt instruments meeting both a “business model” test and a “cash flow characteristics” test are measured at amortized cost (the use of fair value is optional in some limited circumstances)
- Investments in equity instruments can be designated as “fair value through other comprehensive income” with only dividends being recognized in profit or loss
- All other instruments (including all derivatives) are measured at fair value with changes recognized in the profit or loss
- The concept of “embedded derivatives” does not apply to financial assets within the scope of the standard and the entire instrument must be classified and measured in accordance with the above guidelines.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Accounting standards issued but not yet effective (Continued)

(iii) New accounting standards impacting on or after February 1, 2015 (Continued)

This standard is only applicable if it is optionally adopted for annual years beginning before February 1, 2015. For annual years beginning on or after February 1, 2015, the Company must adopt IFRS 9 (2011).

IFRS 9 Financial Instruments (2011)

A revised version of IFRS 9 incorporating revised requirements for the classification and measurement of financial liabilities, and carrying over the existing de-recognition requirements from IAS 39 *Financial Instruments: Recognition and Measurement*. The revised financial liability provisions maintain the existing amortized cost measurement basis for most liabilities. New requirements apply where an entity chooses to measure a liability at fair value through profit or loss; in these cases, the portion of the change in fair value related to changes in the entity's own credit risk is presented in other comprehensive income rather than within profit or loss.

This standard applies to annual years beginning on or after February 1, 2015 and supersedes IFRS 9 (2009). However, for annual reporting years beginning before February 1, 2015, the Company may early-adopt IFRS 9 (2009) instead of applying this standard.

4. AMOUNTS RECEIVABLE

		2013		2012
HST and TVQ receivable	$	20,076	$	186,427
Mining exploration tax receivable* (note 5)		525,000		525,000
Reimbursement of expenses		25,397		-
Due from related parties (note 9)		-		5,588
	$	570,473	$	717,015

*The Company has filed for tax credits relating to mining exploration expenditures with two government agencies in the province of Quebec. The aggregate amount filed is for $751,672, of which the Company has accrued $525,000 as a receivable. The eligibility of these expenditures is subject to review and interpretation by the government agencies. Any adjustment to the actual amounts received will be adjusted in future years when the actual amounts are determined.

5. EXPLORATION AND EVALUATION ASSETS

Expenditures incurred on the Company's exploration and evaluation assets are as follows:

Note	Goeland 5a, 11b $	Manouane 5b $	Lac des Iles 5b, 11c $	Champagne 5d, 11d $	Labelle 5e $	La Loutre 5f, 11e $	North Shore 5g, 11f $	Tetepisca North 5h $	Total $
Acquisition costs									
Balance at January 31, 2012	375,000	168,428	-	-	-	-	-	-	543,428
Option payments	45,000	-	59,500	170,731	57,500	155,000	137,300	56,732	681,763
NI 43-101 report	-	-	-	2,778	-	-	2,700	-	5,478
Balance at January 31, 2013	420,000	168,428	59,500	173,509	57,500	155,000	140,000	56,732	1,230,669
Exploration costs									
Balance at January 31, 2012	1,805,574	87,042	-	-	-	-	-	-	1,892,616
Geophysics and airborne surveys	3,903	-	65,944	-	640	117,017	-	-	187,504
Sampling and analysis	93,997	5,126	-	-	-	3,460	-	-	102,583
Geological consulting	9,000	-	-	-	-	-	-	-	9,000
Travel	46,350	-	-	-	-	-	-	-	46,350
Office and miscellaneous	779	-	-	-	-	-	-	-	779
Communications	1,057	-	-	-	-	-	-	-	1,057
Community relations	17,946	-	-	-	-	-	-	-	17,946
Permits	4,134	-	-	300	-	-	-	-	4,434
Rentals	1,560	-	-	-	-	-	-	-	1,560
Drilling supplies	(6,038)	-	-	-	-	-	-	-	(6,038)
Project support	4,769	-	-	-	-	-	-	-	4,769
Balance at January 31, 2013	1,983,031	92,168	65,944	300	640	120,477	-	-	2,262,560
Mining exploration tax recoveries									
Balance at January 31, 2012	(470,000)	(55,000)	-	-	-	-	-	-	(525,000)
Balance at January 31, 2013	(470,000)	(55,000)	-	-	-	-	-	-	(525,000)
Write off of property	-	(205,596)	-	-	(58,140)	-	-	(56,732)	(320,468)
Carrying amount									
At January 31, 2012	1,710,574	200,470	-	-	-	-	-	-	1,911,044
At January 31, 2013	1,933,031	-	125,444	173,809	-	275,477	140,000	-	2,647,761

5. EXPLORATION AND EVALUATION ASSETS (Continued)

Note	Goeland 5a, 11b $	Manouane 5b $	Total $
Acquisition costs			
Balance at January 31, 2011	190,000	-	190,000
Option payments	185,000	157,500	342,500
Other	-	10,928	10,928
Balance at January 31, 2012	375,000	168,428	543,428
Exploration costs			
Balance at January 31, 2011	-	-	-
Road access work	398,288	20,000	418,288
Geophysics and airborne surveys	74,056	49,092	123,148
Sampling and analysis	210,611	11,200	221,811
Geological consulting	71,370	6,750	78,120
Travel	190,438	-	190,438
Office and miscellaneous	8,850	-	8,850
Communications	10,112	-	10,112
Community relations	119,397	-	119,397
Professional contractors	15,414	-	15,414
Drilling contractors	456,867	-	456,867
Rentals	7,500	-	7,500
Drilling supplies	17,255	-	17,255
Project support	195,001	-	195,001
Core logging	30,415	-	30,415
Balance at January 31, 2012	1,805,574	87,042	1,892,616
Mining exploration tax recoveries			
Balance at January 31, 2011	-	-	-
	(470,000)	(55,000)	(525,000)
Balance at January 31, 2012	(470,000)	(55,000)	(525,000)
Carrying amount			
At January 31, 2012	1,710,574	200,470	1,911,044

5. EXPLORATION AND EVALUATION ASSETS (Continued)

a) Goeland rare earth Property

The Goeland rare earth property is located 215 km north of Val-d'Or in the Abitibi region of Quebec. The Goeland rare earth property consists of 2 large blocks and 2 single claims of 47 minerals claims totaling 2 610.79 hectares (26.11 km^2). On January 6, 2011, the Company entered into an option agreement to acquire a 100% interest in the Goeland property located north of Val d'Or in the Abitibi region of Quebec. This agreement received TSX.V approval on January 21, 2011. To exercise its option, the Company must provide cash payments of $25,000 and issue 2,500,000, see Note 11. In conjunction with the completion of the transaction, a finder's fee of 100,000 common shares was issued upon TSX.V approval.

b) Manouane Property

On July 27, 2011, the Company entered into an option agreement with a related party (note 9d), to acquire a 100% interest in the Manouane property located west of La Tuque, Quebec. This agreement received TSX.V approval on September 15, 2011. To exercise its option, the Company must provide cash payments of $7,500 and issue 350,000 common shares. During the year ended January 31 2013, the Company abandoned this property and wrote off the carrying value of the property.

c) Lac des Iles West Property

On February 22, 2012, the Company entered into an option agreement to acquire a 100% interest in the Lac des Isles West property, which borders the western limit of Timcal's Lac des Isles Graphite Mine, close to Mont-Laurier, Quebec. The Lac des Iles West property consists of 1 large contiguous block of 104 mineral claims totaling 5,601.30 hectares (56.01 km^2). This agreement received TSX.V approval on March 16, 2012. To exercise its option, during the year ended January 31, 2013 the Company paid $12,500 and issued 500,000 common; see Note 11 for additional commitments.

d) Champagne Property

On April 17, 2012, and amended August 29, 2012, the Company entered into an option agreement to acquire a 100% interest in the Champagne property located north of Baie-Comeau, Quebec. This agreement is pending final TSX.V approval (TSX.V approval was obtained on March 27, 2013). The Champagne property group consists one large contiguous block of 88 mineral claims totaling 4,872.76 hectares (48.73 km^2). To exercise its option, the Company must provide cash payments of $390,000 and issue 6,000,000 common shares, see Note 11.

e) Labelle Property

On February 20, 2012, the Company entered into an option agreement to acquire a 100% interest in the Labelle property located northwest of Montreal, Quebec. This agreement received TSX.V approval on March 16, 2012. To exercise its option, the Company must provide cash payments of $45,000 and issue 500,000 common shares. During the year ended January 31, 2013, the Company abandoned this property and wrote off the carrying value of the property.

5. EXPLORATION AND EVALUATION ASSETS (Continued)

f) La Loutre Property

On February 20, 2012, the Company entered into an option agreement to acquire a 100% interest in the La Loutre property located northwest of Montreal, Quebec. The La Loutre Property consists of 1 large contiguous block of 42 mineral claims totaling 2,508.97 hectares (25.09 km^2). This agreement received TSX.V approval on March 16, 2012. To exercise its option, during the year ended January 31, 2013 the Company paid $75,000 and issued 1,000,000 common shares, see Note 11 for additional commitments.

g) North Shore Package (including 11 properties)

On July 18, 2012, the Company entered into an option agreement to acquire a 100% interest in the North Shore Package of Graphite Properties. To exercise its option, the Company must provide cash payments of $75,000 and issue 6,000,000 common shares, see Note 11. The package consists of 11 distinct properties as follows:

(i) Grand Prix North Property

The Grand Prix North Property consists of 1 large contiguous block of 15 mineral claims totalling 829.99 hectares (8.29 km^2) located approximately 130 km northwest of Baie-Comeau in central eastern Québec.

(ii) Paradise 1 Property

The Paradise 1 property consists of 1 large contiguous block of 17 mineral claims totalling 923.81 hectares (9.24 km^2) located approximately 190 km north of Baie-Comeau in central eastern Québec.

(iii) Marble South Property

The Marble South property consists of 1 large contiguous block of 25 mineral claims totalling 1,392.02 hectares (13.92 km^2) located approximately 100 km northwest of Baie-Comeau in central eastern Québec.

(iv) Mardi Gras Property

The Mardi Gras property consists of 2 large blocks of 21 mineral claims totalling 1,122.83 hectares (11.23 km^2) located approximately 160 km northwest of Sept-Iles in central eastern Québec.

(v) Grand Prix Property

The Grand Prix property consists of 1 large contiguous block of 273 mineral claims totalling 14,976.29 hectares (149.76 km^2) located approximately 110 km northwest of Baie-Comeau in central eastern Québec.

(vi) Paradise 2 Property

The Paradise 2 property consists of 1 large contiguous block of 112 mineral claims totalling 6,102.53 hectares (61.03 km^2) located approximately 170 km north of Baie-Comeau. in central eastern Québec.

(vii) White Property

The White property consists of 1 large contiguous block of 10 mineral claims totalling 557.32 hectares (5.57 km^2) located approximately 50 km north of Baie-Comeau in central eastern Québec.

5. EXPLORATION AND EVALUATION ASSETS (Continued)

g) North Shore Package (including 11 properties) (Continued)

(viii) Butterfly Property
The Butterfly property consists of 3 blocks of 261 minerals claims totalling 14,084.03 hectares (140.84 km^2) located approximately 102 km northwest of Sept-Îles in central eastern Québec.

(ix) Marble South Property
The Marble North property consists of 1 large contiguous block of 13 mineral claims totalling 722.84 hectares (7.23 km^2) located approximately 100 km northwest of Baie-Comeau in central eastern Québec.

(x) Lion Property
The Lion property consists of 1 large contiguous block of 120 mineral claims totalling 6,553.13 hectares (65.53 km^2) located approximately 110 km north of Matagami in western Québec

(xi) Tétépisca Property
The Tétépisca property consists of 1 large contiguous block of 78 mineral claims totalling 4,206.09 hectares (42.09 km^2) located approximately 230 km northwest of Baie-Comeau in central eastern Québec.

h) Tetepisca North

On April 17, 2012, the Company entered into an option agreement to acquire a 100% interest in the Tetepisca North Graphite Property located north of Baie-Comeau, Quebec. This agreement received TSX.V approval on May 25, 2012. To exercise its option, the Company must provide cash payments of $25,000 and issue 500,000 common shares. During the year ended January 31, 2013 the Company wrote off the carrying value of the property.

6. PROPERTY AND EQUIPMENT

	Furniture and equipment	Leasehold improvements	Software license	Oil and natural gas equipment	Total
	$	$	$	$	$
Cost					
Balance at January 31, 2011	3,200	14,967	10,930	72,476	101,573
Additions	30,849	103,715	-	-	134,564
Impairment	-	-	-	(72,476)	(72,476)
Balance at January 31, 2012 and January 31, 2013	34,049	118,682	10,930	-	163,661
Accumulated depreciation					
Balance at January 31, 2011	2,637	12,333	10,930	-	25,900
Amortization for the year	3,649	13,006	-	-	16,655
Balance at January 31, 2012	6,286	25,338	10,930	-	42,555
Amortization for the year	6,169	20,743	-	-	26,912
Balance at January 31, 2013	12,455	46,082	10,930	-	69,468
Carrying amounts					
At January 31, 2012	27,763	93,343	-	-	121,107
At January 31, 2013	21,594	72,600	-	-	94,194

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		2013		2012
Trade payables	$	742,995	$	590,838
Accrued liabilities		27,000		32,000
Due to Receiver General		-		402
Due to related parties (note 10)		26,341		10,348
	$	796,336	$	633,588

8. SHARE CAPITAL

(a) Authorized

Unlimited common shares without par value

(b) Issued and outstanding

During the year ended January 31, 2013:

(i) On January 31, 2013 the Company issued 500,000 common shares pursuant to the Goeland rare earth option agreement. The fair value of the common shares issued was $45,000.

(iii) On November 8, 2012 the Company closed a non-brokered private placement issuing 2,050,000 units at a price of $0.055 per unit for gross proceeds of $112,750. Each unit is comprised of one common share and non-transferable share purchase warrant, each warrant entitling the holder to purchase one additional common share at a price of the Company at a price of $0.10 for a period of two years from the date of closing.

(iv) On December 28, 2012, the Company closed a flow-through financing issuing 2,937,500 units at $0.16 per unit for gross proceeds of $470,000. Each unit is comprised of one common share and one-half of one non-transferable share purchase warrant. Each full warrant entitles the holder to purchase one non-flow-through share at a price of $0.30 per share for a period of one year from the date of closing. The Company, bifurcated the issuance to record a premium liability of $146,875 attributed to the flow through shares.

(iii) The Company issued 300,000 common shares pursuant to the Lac des Isles West option agreement on March 9, 2012. The fair value of the common shares issued was $33,000. A further 200,000 common shares pursuant to the same agreement were issued on September 19, 2012 with a fair value of $14,000.

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8. SHARE CAPITAL (Continued)

(b) Issued and outstanding (continued)

(iv) The Company issued 3,000,000 common shares pursuant to the Champagne and North Shore Package option agreements on August 31, 2012. The fair value of the common shares issued was $105,000 for Champagne and $105,000 for the North Shore Package.

(v) The Company completed a private placement by issuing 7,000,000 non-flow-through units at $0.10 per unit for gross proceeds of $700,000. Each unit is comprised of one common share and one share purchase warrant exercisable at $0.20 to April 13, 2014. Pursuant to the private placement, finder's fees were paid in the amount of $32,375, and 308,000 finder's warrants were issued to eligible parties at an exercise price of $0.20, exercisable to April 13, 2014 with a value of $44,014.

(vi) The Company issued of 1,250,000 common shares pursuant to the acquisitions of two Graphite properties, (La Loutre & Labelle) (note 5). The fair value of the common shares issued for the Graphite properties was $137,500.

(vii) The Company issued 250,000 common shares pursuant to the acquisition of the Tetepisca North Graphite Property (note 5). The fair value of the common shares issued for the Tetepisca North Graphite Property was $30,000.

During the year ended January 31, 2012:

(viii) The Company completed a private placement by issuing 1,833,330 non-flow-through units at $0.15 per unit for gross proceeds of $275,000. Each unit is comprised of one common share and one share purchase warrant exercisable at $0.25 to February 2, 2013. Proceeds of $34,800 from this private placement were received prior to January 31, 2011.

(ix) The Company completed a private placement by issuing 3,481,130 non-flow-through units at $0.65 per unit for gross proceeds of $2,262,735 with finder's fees paid of $131,507. Each unit is comprised of one common share and one-half of one share purchase warrant exercisable at $0.90 to March 21, 2013.

(x) The Company issued 75,000 common shares relating to the issuance of stock options at an exercise price of $0.22 per share for proceeds of $16,500.

(xi) The Company issued 722,497 common shares relating to the exercise of share purchase warrants at an exercise price of $0.25 per share purchase for proceeds of $179,133.

8. SHARE CAPITAL (Continued)

(b) Issued and outstanding (continued)

(xii) The Company issued 500,000 and 350,000 common shares pursuant to the Goeland and Manouane, respectively, property option agreements (note 5). The fair values of the common shares issued for the Goeland and Manouane property option agreements were $185,000 and $157,500, respectively.

(c) Stock options

The Company has established a stock option plan whereby the Board of Directors may, from time to time, grant stock options to directors, officers, employees or consultants. Stock options granted must be exercised no later than ten years from the date of grant or such lesser period as determined by the Company's Board of Directors. The exercise price of a stock option is not less than the closing price of the stock on the last trading day preceding the grant date. The maximum number of stock options to be granted under this plan is 3,427,874. As at January 31, 2013, there are 3,425,000 stock options outstanding.

A summary of the Company's stock options at January 31, 2013 and January 31, 2012 is presented below:

	Stock options outstanding		Weighted average exercise price
Balance at January 31, 2011	950,000	$	0.25
Granted	2,325,000	$	0.55
Cancelled	(325,000)	$	(0.57)
Exercised	(75,000)	$	(0.22)
Balance at January 31, 2012	2,875,000	$	0.45
Granted	1,525,000	$	0.10
Cancelled	(800,000)	$	(0.55)
Expired	(175,000)	$	(0.45)
Balance at January 31, 2013	3,425,000	$	0.26

8. SHARE CAPITAL (Continued)

(c) Stock options (continued)

The following table summarizes information about the stock options outstanding and exercisable at January 31, 2013:

Expiry date		Exercise price	Options outstanding	Options exercisable
February 3, 2013	$	0.22	100,000	100,000
February 3, 2013	$	0.50	100,000	100,000
November 15, 2013	$	0.22	25,000	25,000
November 15, 2013	$	0.50	25,000	25,000
November 15, 2013	$	0.10	25,000	25,000
January 10, 2016	$	0.22	450,000	450,000
January 25, 2016	$	0.30	200,000	200,000
February 25, 2016	$	0.72	100,000	100,000
April 19, 2016	$	0.66	125,000	125,000
August 15, 2016	$	0.50	775,000	900,000
July 18, 2017	$	0.10	1,500,000	1,500,000
			3,425,000	3,425,000
Weighted average remaining contractual life in years			3.54	3.54

The following table summarizes information about the stock options outstanding and exercisable at January 31, 2012:

Expiry date		Exercise price	Options outstanding	Options exercisable
May 31, 2012	$	0.45	175,000	131,250
January 10, 2016	$	0.22	575,000	575,000
January 25, 2016	$	0.30	200,000	200,000
February 25, 2016	$	0.72	200,000	200,000
April 19, 2016	$	0.66	225,000	225,000
August 15, 2016	$	0.50	1,500,000	706,250
			2,875,000	2,037,500
Weighted average remaining contractual life in years			4.07	3.97

Stock options granted by the Company vest over multiple years. The Company recognized share-based payments expense based on vesting terms.

8. SHARE CAPITAL (Continued)

(c) Stock options (Continued)

In determining the share-based payments expense, the fair value of the stock options issued were estimated using a Black-Scholes option pricing model with the following weighted average assumptions used:

	2013	2012
Risk-free interest rate	1.18%	1.67%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility*	169.34%	113.41%
Expected life of options	4.9 years	4.7 years
Grant date fair value	$0.084	$0.412

* Expected stock price volatility is based on the historical volatility of comparable companies, with similar operations and size, to the extent of the expected life of the option.

Share-based payments expense for the years ended January 31, 2013 and 2012 are as follows:

	2013	2012
Directors	$ 119,836	$ 557,907
Officers	6,307	119,502
Consultants	2,102	165,733
	$ 128,245	$ 843,142

During the year ended January 31, 2013, a total of $52,360 (2012 - $62,563) share-based payments expense was recognized due to vested options.

8. SHARE CAPITAL (Continued)

(d) Share purchase warrants

A summary of the Company's share purchase warrants at January 31, 2013 and January 31, 2012 is presented below:

	Share purchase warrants outstanding		Weighted average exercise price
Balance at January 31, 2011	666,667	$	0.30
Issued	3,573,894	$	0.57
Exercised	(722,497)	$	(0.25)
Balance at January 31, 2012	3,518,064	$	0.58
Issued	10,973,625	$	0.20
Balance at January 31, 2013	14,491,689	$	0.29

The following table summarizes information about the share purchase warrants outstanding and exercisable at January 31, 2013:

Expiry date		Exercise price	Share purchase warrants outstanding
February 2, 2013	$	0.25	1,110,833
March 21, 2013	$	0.90	1,740,564
November 8, 2014	$	0.10	2,050,000
December 28, 2013	$	0.30	1,468,750
December 28, 2013	$	0.25	146,875
January 10, 2014	$	0.30	666,667
April 13, 2014	$	0.20	7,308,000
			14,491,689
Weighted average remaining contractual life in years			1.02

8. SHARE CAPITAL (Continued)

(d) Share purchase warrants (Continued)

The following table summarizes information about the share purchase warrants outstanding and exercisable at January 31, 2012:

Expiry date		Exercise price	Share purchase warrants outstanding
February 2, 2013	$	0.25	1,110,833
March 21, 2013	$	0.90	1,740,564
January 10, 2014	$	0.30	666,667
			3,518,064
Weighted average remaining contractual life in years			1.25

On April 12, 2013, the Company issued 308,000 finders warrants exercisable at $0.20 for a period of two years from date of issuance as part of the 7,000,000 unit private placement. These warrants had a fair value of $37,396. On December 28, 2012 the Company issued 146,875 finders warrants exercisable at $0.25 for a period of one year from date of issuance as part of the 2,937,500 unit private placement. These warrants had a fair value of $6,618. The Company used the Black-Scholes pricing model based on the following weighted average assumptions:

	2013
Risk-free interest rate	1.17%
Expected life of warrants	1.68 years
Annualized volatility	158.75%
Dividend rate	0%
Grant date fair value	$0.158

9. RELATED PARTY TRANSACTIONS

The following related party transactions took place during the year ended January 31, 2013:

a) During the year, the Company has incurred management fees of $138,000 ($133,500 in 2012) and accounting fees for $42,000 ($40,250 in 2012) to companies controlled by its directors or officers. In relation with these transactions, $11,341 was payable as at January 31, 2013.

b) During the year, the Company has reimbursed general administrative expenses of $79,087 ($49,267 in 2012) to companies controlled by its directors or officers. In relation with these transactions, no amount was payable as at January 31, 2013.

c) During the year, the Company incurred $52,206 of exploration expenses ($Nil in 2012) to Consul-Teck Exploration Inc., a company controlled by the President and Chief Executive Officer of the Company. These expenses relate to exploration expenditures of $50,434 ($Nil in 2012), and permits for $1,772 ($Nil in 2012). At year end a balance of $58, was payable to Consul-Teck Exploration Inc.

The transactions are in the normal course of operations and are measured at amount of consideration established and agreed by the related parties.

d) During the year, the Company has the option to acquire a 100% interest in the Champagne property from several individuals, including Jean-Sébastien Lavallée who became the President and Chief Executive Officer of the Company in September 2012. He received $20,000 in cash on signing the original agreement and 500,000 common shares of the Company with a fair value of $35,000 on the approval date. The remaining payments, both in shares and in cash consideration, are scheduled to be made within 24 months from the approval date.

e) During the year, the Company has the option to acquire a 100% interest in the La Loutre property from several individuals, including Jean-Sébastien Lavallée who became the President and Chief Executive Officer of the Company in September 2012. He received $5,000 in cash upon signing the agreement, and $5,000 in cash and 333,333 common shares with a fair value of $36,667 on the TSX.V approval date. The remaining payments, both in shares and in cash consideration, are scheduled to be made within 18 months from the approval date.

f) During the year, the Company has the option to acquire a 100% interest in the North Shore Package properties from several individuals, including Jean-Sébastien Lavallée who became the president of the Company in September 2012. He received 500,000 common shares of the Company with a fair value of $35,000. The remaining payments, both in shares and in cash consideration, are scheduled to be made within 24 months from the approval date.

9. RELATED PARTY TRANSACTIONS (continued)

g) During the year, the Company has the option to acquire a 100% interest in the Labelle property from several individuals, including Jean-Sébastien Lavallée who became the President and Chief Executive Officer of the Company in September 2012. He received $5,000 in cash upon signing the agreement $5,000 in cash and 83,333 common shares of the Company with a fair value of $9,167 on the TSX.V approval date. During the year the Company has written off the carrying value of the property and any further payments are unlikely.

The transactions are measured at the exchange amount which is the consideration established and agreed by the related parties.

The remuneration of directors and other members of key management personnel during the years ended January 31, 2013 and 2012 were as follows:

		2013		2012
Management and accounting fees	$	180,000	$	173,750
Share-based payments*		153,272		677,409
	$	333,272	$	851,159

* Share-based payments are the fair value of stock options vested to key management personnel.

10. FINANCIAL INSTRUMENTS

Fair values
The fair values of the Company's financial assets and liabilities approximate their carrying amounts.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2- Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

10. FINANCIAL INSTRUMENTS (Continued)

The following is an analysis of the Company's financial assets measured at fair value:

	2013			2012		
	Level 1	**Level 2**	**Level 3**	**Level 1**	**Level 2**	**Level 3**
Financial assets						
Cash	$ 453,304	-	-	$ 197,584	-	-

Management of capital risk

The Company's objectives when managing capital are: (i) to ensure sufficient liquidity to support its financial obligations and execute its operating and strategic plans; (ii) to minimize the cost of capital while taking into consideration current and future industry, market, and economic risks and conditions; and (iii) safeguard the Company's ability to continue as a going concern in order to pursue the development of its evaluation and exploration assets and to maintain flexible capital structure, which optimizes the costs of capital at an acceptable rate. The Company considers capital to include shareholders' equity, which at January 31, 2013, is $2,822,521. There are no externally imposed capital requirements. The Company manages the capital structure and makes adjustments to it depending on economic conditions and the rate of anticipated expenditures. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, acquire or dispose of assets, or adjust the amount of cash and investments. At the present time, the only capital requirements are to satisfy the current liabilities. There were no changes in the Company's approach to capital management during the year ended January 31, 2013.

Fair value

The carrying amount of financial assets and liabilities carried at amortized cost is a reasonable approximation of fair value due to the short maturities of the instruments.

Credit risk

The Company is exposed to credit risk with respect to its cash. The credit risk associated with cash is minimal as cash has been placed with major Canadian financial institutions with strong investment-grade ratings by a primary ratings agency. The Company is not exposed to significant credit risk with respect to amounts receivable.

10. FINANCIAL INSTRUMENTS (Continued)

Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in satisfying financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows from operations and anticipated investing and financing activities. The Company has cash and amounts receivable at January 31, 2013, in the amounts of $453,304 and $570,473, respectively, which is sufficient to meet its short-term business requirements. At January 31, 2013, the Company had accounts payable and accrued liabilities of $769,337 with contractual maturities of 90 days or less.

Market risk

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate, foreign currency and other price risk.

(a) Interest rate risk

The Company is not exposed to significant interest rate risk due to the short-term maturity of its monetary assets and liabilities.

(b) Foreign currency risk

The Company is not exposed to significant foreign currency risk.

(c) Other price risk

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to other price risk.

11. COMMITMENTS

a) During the last year ended January 31, 2012, the Company entered into a lease for its office premises. The lease began September 1, 2011 and ends August 31, 2016. The Company is committed to pay base rent of $86,915 per annum. In addition to the base rent, the Company is committed to pay additional rent, which consists of its proportionate share of utilities, realty taxes and operating costs totaling approximately $45,000 per annum. The Company shares its office premises with other related companies and, accordingly, receives reimbursement for their proportionate share. Subsequent to the year ended January 31, 2013, the Company assigned the office lease agreement over to a third party and relocated to Montreal, Quebec.

11. COMMITMENTS (Continued)

b) On January 6, 2011, the Company signed an option agreement to acquire a 100% interest in the Geoland property located in north of Val-d'Or in the Abitibi region of Quebec. Under this agreement, the Company paid $25,000 in cash and issued 1,500,000 common shares. To fulfill its obligation, the Company will have to issue 500,000 common shares in January 2014, and 500,000 common shares in January 2014.

Under the terms of the agreement, the property remains subject to a 2% NSR royalty payable to the vendors.

c) On February 22, 2012, the Company signed an option agreement to acquire a 100% interest in the Lac des Iles West property, which borders the western limit of Timcal's Lac des Iles Graphite Mine, close to Mont-Laurier, Quebec. Under this agreement, the Company paid $12,500 in cash and issued 500,000 common shares. In addition to the above cash payments and common share issuances, the Company must issue a bonus in the form of common shares with a fair value of $1,000,000 or pay $1,000,000 upon commencement of production.

d) On April 17, 2012, and amended August 29, 2012, the Company signed an option agreement to acquire a 100% interest in the Champagne property located north of Baie-Comeau, Quebec. Under this agreement, the Company paid $60,000 in cash and issued 1,500,000 common shares. To fulfill its obligation, the Company will have to issue 1,500,000 common shares at TSX.V final acceptance (common shares issued in subsequent period see Note 13), pay $60,000 in cash in September 2013, as well as $135,000 in cash and issue 1,500,000 additional common shares in June 2014 and finally $135,000 in cash and 1,500,000 additional common shares in March 2015.

Under the terms of the agreement, the property remains subject to a 2% NSR royalty payable to the vendors. The Company has the option to purchase 1% of this NSR royalty for $1,000,000. In addition to the above cash payments and common share issuances, the Company must, if a NI 43-101 report indicates a resource estimate greater than 200,000 tonnes, pay $150,000 and issue 3,000,000 common shares. The Company must also complete a minimum of $250,000 in exploration related expenditures in aggregate with respect to the Champagne Property and/or any of the North Shore properties optioned to the Company by the optionors within 18 months from the Approval Date.

11. COMMITMENTS (Continued)

e) On February 20, 2012, the Company signed an option agreement to acquire a 100% interest in the La Loutre property located northwest of Montreal, Quebec. Under this agreement, the Company paid $30,000 in cash and issued 1,000,000 common shares. To fulfill its obligation, the Company will have to pay $15,000 in cash due immediately, $15,000 in cash and 500,000 additional common shares in March 2013 (shares being issued in the subsequent period see Note 13), and finally $15,000 in cash and 500,000 additional shares in September 2013. In addition to the above cash payments and common share issuances, the Company must complete a minimum of $100,000 of exploration expenditures within one year from the date of TSX.V approval. Under the terms of the agreement, the property remains subject to a 1.5% NSR royalty payable to the vendors. The Company has the option to purchase 0.5% of this NSR royalty for $500,000. The Company has met this commitment during fiscal 2013.

f) On July, 2012 the Company signed an option agreement to acquire a 100% interest in the North Shore Package of Graphite Properties, consisting of 11 distinct properties; Grand Prix, Grand Prix North, Butterfly Graphite, Paradise North, Paradise South, Marble North, Marble South, Tetepisca, Mardi Gras Graphite, White Graphite, and Lion Graphite located primarily on the Quebec North Shore.

   Under this agreement, the Company issued 1,500,000 common shares. To fulfill its obligation, the Company will have to pay $30,000 in cash and issue 1,500,000 common shares (shares issued in subsequent period, see Note 13) in March 2013, $45,000 in cash in September 2013, 1,500,000 common shares in June 2014 and 1,500,000 common shares in March 2015.

   In addition to the above cash payments and common share issuances, the Company must complete a minimum of $250,000 of exploration related expenditures in aggregate with respect to the North Shore Properties and/or the Champagne Property within 18 months from the date of TSX.V approval. Under the terms of the agreement, the property remains subject to a 2% NSR royalty payable to the vendors. The Company has the option to purchase 1.0% of this NSR royalty for $1,000,000.

12. SUPPLEMENTARY INFORMATION FOR CASH FLOWS

	2013 $	2012 $
Exploration and evaluation expenditures included in accounts payable	571,850	366,009
Common shares issued as option payments for exploration and evaluation assets	469,500	342,500

13. INCOME TAXES

The Company has net capital losses of $1,380,000 and non-capital losses of $6,742,000 available that may be carried forward and applied against future income for Canadian income tax purposes. The tax effect has not been recorded in the financial statements. The non-capital losses expire as follows:

2015	$	650,000
2026		591,000
2027		726,000
2028		2,189,000
2029		475,000
2030		242,000
2031		305,000
2032		885,000
2033		679,000
	$	6,742,000

The Company recognizes tax benefits on losses or other deductible amounts generated where the probable criteria for the recognition of deferred tax assets has been met. Consequently, the Company has tax assets relating to deductible temporary differences and unused tax losses of $19,689,000 (2012 - $19,084,000) for which no deferred tax asset is recognized, as it is not probable that the deferred tax assets will be realized in the future.

The following are the deductible temporary differences for which no deferred tax assets are recognized in the financial statements:

		2013		**2012**
		25.95%		25.00%
Mineral resource properties	$	2,924,000	$	2,854,000
Non-capital losses carried forward		1,749,000		1,516,000
Capital losses carried forward		356,000		356,000
Share issue costs		47,000		33,000
Other		33,000		12,000
	$	5,109,000	$	4,771,000

13. INCOME TAXES (Continued)

Income tax expense differs from the amount that would be computed by applying the Canadian statutory income tax rate to income before income taxes. The reasons for the differences are as follows:

		2013		2012
Statutory tax rate		25.95%		26.38%
Expected income tax recovery	$	299,160	$	473,616
Items non-deductible for tax purposes, net		(15,953)		(220,093)
Temporary differences		(126,346)		439,607
Change in tax rate		181,139		(14,264)
Unused tax losses and tax offsets not recognized in tax assets		(338,000)		(678,866)
	$	-	$	-

14. SUBSEQUENT EVENTS

a) In March 2013, the Company issued 1,500,000 common shares in accordance with the agreement signed on April 17, 2012 to acquire a 100% interest in the Champagne property (see Note 11). Of this amount, 500,000 common shares were issued to the President of the Company.

b) In March 2013, the Company issued 1,500,000 common shares in accordance with the agreement signed on July 19, 2012 to acquire a 100% interest in the North Shore property (see Note 11). Of this amount, 500,000 common shares were issued to the President of the Company.

c) In April 2013, the Company issued 500,000 common shares in accordance with the agreement signed on February 20, 2012 to acquire a 100% interest in the La Loutre property (see Note 11). Of this amount, 133,333 common shares were issued to the President of the Company.

d) Subsequent to year-end, 2,851,397 share purchase warrants and 200,000 stock options expired unexercised.