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

Condensed Interim Financial Statements
For the Nine Months Ended October 31, 2012
(Unaudited – Expressed in Canadian Dollars)

Notice of No Auditor Review of Condensed Interim Financial Statements

The accompanying unaudited condensed interim financial statements have been prepared by management and approved by the Audit Committee.

The Company's independent auditors have not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of condensed interim financial statements by an entity's auditors.

December 28, 2012

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

	October 31, 2012	January 31, 2012
ASSETS		
Current		
Cash	$ 40,056	$ 197,584
Amounts receivable (note 4)	550,237	717,015
Prepaid expense	-	10,000
	590,293	924,599
Exploration and Evaluation Assets (note 5)	3,118,707	1,911,044
Property and Equipment (note 6)	121,107	121,107
	$ 3,830,107	$ 2,956750
LIABILITIES		
Current		
Accounts payable and accrued liabilities (note 7)	$ 751,290	$ 633,588
	751,290	633,588
SHAREHOLDERS' EQUITY (DEFICIENCY)		
Share Capital (note 8)	27,795,094	26,516,969
Share-based Payments Reserve (note 8(c))	2,633,512	2,570,949
Deficit	(27,349,789)	(26,764,756)
	3,078,817	2,323,162
	$ 3,830,107	$ 2,956750

Approved on behalf of the Board:

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

"Ron MacDonald" ……………………………………………… Ron MacDonald, 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)
Condensed Statements of Operations and Comprehensive Loss
(Unaudited - Expressed in Canadian Dollars)
For the periods ended October 31, 2012 and 2011

		9 Months Ended October 31, 2012		9 Months Ended October 31, 2011		3 Months Ended October 31, 2012		3 Month Ended October 31, 2011
Operating Expenses								
Accounting, audit and legal fees (note 10)	$	**92,860**	$	67,225	$	**40,726**	$	26,548
Consulting fees		**58,261**		78,724		**30,570**		20,297
Interest and bank charges		**1,110**		1,185		**(99)**		454
Insurance		**8,654**		12,197		**(1,380)**		-
Investor relations and communications		**113,415**		174,188		**22,505**		60,413
Management fees (note 10)		**118,000**		93,000		**37,000**		32,500
Office and administration		**33,790**		148,914		**7,892**		72,333
Rent, net (note 10)		**12,712**		41,273		**4,370**		12,646
Share-based payments (note 8(c))		**62,563**		221,454		**-**		-
Transfer agent, listing and filing fees		**31,324**		43,133		**7,346**		5,238
Travel and entertainment		**53,349**		49,277		**5,037**		25,879
Operating Loss Before Other Items and Discontinued Operations		**(586,038)**		(930,570)		**(153,967)**		(256,308)
Other Items								
Unrealized gain on marketable securities		**(1,532)**		14,400		**-**		(600)
Realized gain on sale of marketable securities		**2,537**		12,829		**-**		3,485
Loss from Continuing Operations		**(585,033)**		(903,341)		**(153,967)**		(253,423)
Income (Loss) from Discontinued Operations (note 9)		**-**		1,246		**-**		-
Net Loss and Comprehensive Loss for Period	$	**(585,033)**	$	(902,095)	$	**(153,967)**	$	(253,423)
Deficit - beginning of period		**26,764,756**		24,888,424		**27,195,822**		25,537,097
Deficit - end of period	$	**27,349,789**	$	25,790,520	$	**27,349,789**	$	25,790,520
Earnings (Loss) Per Share – Basic and Diluted								
Loss per share from continuing operations – basic and diluted	$	**0.02**	$	0.06	$	**0.01**	$	0.02
Weighted Average Number of Common Shares Outstanding		**28,832,538**		14,770,402		**28,832,538**		14,770,402

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

CANADA STRATEGIC METALS INC.
(Formerly Canada Rare Earths Inc.)
(An Exploration Stage Company)
Condensed Interim Statements of Cash Flows
(Unaudited - Expressed in Canadian Dollars)
For the periods ended October 31, 2012 and 2011

	9 Months Ended October 31, 2012	9 Months Ended October 31, 2011	3 Months Ended October 31, 2012	3 Months Ended October 31, 2011
Operating Activities				
Loss from continuing operations	**$ (586,038)**	$ (902,095)	**$ (153,967)**	$ (253,423)
Items not involving cash				
Share-based payments	**62,563**	221,454	**-**	-
Unrealized foreign exchange gain	**-**	-	**-**	-
Realized gain on marketable securities	**2,537**	(12,829)	**-**	(3,485)
Unrealized gain on marketable securities	**(1,532)**	(14,400)	**-**	600
	(522,470)	(707,870)	**(153,967)**	(256,308)
Changes in non-cash working capital				
Accounts receivable	**166,778**	(112,090)	**39,169**	(78,990)
Accounts payable and accrued liabilities	**117,702**	(42,161)	**90,688**	(1,346)
Prepaid expense	**10,000**	(10,000)	**-**	50,396
Cash Used in Operating Activities	**(227,990)**	(872,121)	**(24,110)**	(286,248)
Investing Activities				
Proceeds from sale of marketable securities	**-**	55,834	**-**	6,585
Acquisition of property and equipment	**(822,763)**	-	**(269,360)**	-
Expenditures on furniture and equipment	**-**	(26,668)	**-**	(15,668)
Expenditures on exploration and evaluation assets	**(384,899)**	(946,871)	**(3,460)**	(706,454)
Cash Provided By (Used in) Investing Activities	**(1,207,662)**	(917,705)	**(272,820)**	(715,537)
Financing Activities				
Obligation to issue shares	**-**	(34,800)	**-**	-
Issuance of shares for property	**610,500**	185,500	**224,000**	185,500
Issuance of share capital, net of issuance costs	**667,625**	2,563,153	**-**	47,000
Cash Provided by Financing Activities	**1,278,125**	2,713,853	**224,000**	232,500
Net Change in Cash for the Period	**(157,528)**	924,027	**(72,931)**	(769,285)
Cash, Beginning of Period	**197,584**	96,503	**112,987**	1,789,814
Cash, End of Period	**$ 40,056**	$ 1,020,529	**$ 40,056**	$ 1,020,529

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

CANADA STRATEGIC METALS INC.
(Formerly Canada Rare Earths Inc.)
(An Exploration Stage Company)
Condensed Interim Statements of Changes in Shareholders' Equity (Deficiency)
(Unaudited - Expressed in Canadian Dollars)
For the nine months ended October 31, 2012 and 2011

	Share Capital		Share subscriptions received	Share-based payments reserve		
	Number of shares	Share $	$	$	Deficit $	Total $
January 31, 2011	11,437,911	23,553,245	34,800	1,666,199	(24,888,425)	365,819
Shares issued for cash	5,957,125	2,694,660	(34,800)			2,659,860
Shares issued for property	350,000	185,500				185,500
Share issue costs		(131,507)				(131,507)
Share-based payments				221,454		221,454
Net loss and comprehensive loss for the year					(902,095)	(902,095)
October 31, 2011	17,745,036	26,301,898	-	1,887,653	(25,794,020)	2,399,031
January 31, 2012	18,399,868	26,516,969	-	2,570,949	(26,764,756)	2,323,162
Private placements	7,000,000	700,000				700,000
Issued for exploration assets	5,000,000	610,500				610,500
Share issue costs		(32,375)				(32,375)
Share-based payments				62,563		62,563
Net loss and comprehensive loss for the year					(585,033)	(585,033)
October 31, 2012	30,399,868	27,795,094	-	2,633,512	(27,349,789)	3,078,817

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 October 31, 2012, the Company has cash of $40,056 (January 31, 2012 - $197,584), working capital deficit in the amount of $160,997 (January 31, 2012 – working capital of $291,011) and a deficit since inception in the amount of $27,349,789 (January 31, 2012 - $26,764,756). Further, the Company incurred a loss of $585,033 for the nine month period ended October 31, 2012 (2011 - $902,095). 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 906 - 505, boul. De Maisonneuve Ouest, Montreal, Quebec H3A 3C2.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These interim financial statements have been prepared in accordance with IAS 34 'Interim Financial Reporting' ("IAS 34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). These interim financial statements follow the same accounting policies and methods of application as our most recent annual financial statements. Accordingly, they be read in conjunction with our most recent annual financial statements.

An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in note 13.

(b) Approval of the financial statements

These interim financial statements were approved and authorized for issue by the Board of Directors of the Company on December 28, 2012.

(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 period or in the period of the revision and further periods if the review affects both current and future periods.

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 periods presented, the comparative figures as at and for the year ended January 31, 2012.

(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 period in which the related qualifying resource expenditures are incurred, 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 income (loss) for the period.

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 period 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 period 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. 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 can 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 period 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 period. 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 periods.

(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 income or loss financial assets

Financial assets at fair value through income or loss are initially recognized at fair value with changes in fair value recorded through income. Cash and marketable securities are 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 investments.

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 period 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).

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. Amounts receivable is included in this category of financial asset.

They are carried at amortized cost less any impairment. The impairment loss of receivables is based on a review of all outstanding amounts at period-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.

(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 period 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 and accrued liabilities and due to related parties.

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.

(g) Income taxes

Income tax expense represents current tax and deferred tax. The Company records current tax based on the taxable profits for the period, 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 period 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 period. 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 and depletion, 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) Discontinued operations

A discontinued operation is a component of the Company's business that represents a separate major line of business or geographical area of operations that has been disposed of or is held for sale or distribution. Classification as a discontinued operation occurs upon disposal or when the operation meets the criteria to be classified as held-for-sale, if earlier. When an operation is classified as a discontinued operation, the comparative statements of financial position, operations and comprehensive loss, and cash flows are re-presented as if the operation had been discontinued from the start of the comparative year.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(m) Accounting standards issued but not yet effective

The Company has not early-adopted these revised standards and is currently assessing the impact these standards will have on the financial statements.

(i) New accounting standards impacting on or after February 1, 2012

IFRS 7 Financial Instruments: Disclosures (Amendment)

The amendment, effective for annual periods beginning on or after July 1, 2012, with early application permitted, requires additional quantitative and qualitative disclosures relating to transfers of financial assets where: financial assets are derecognized in their entirety, but where the entity has a continuing involvement in them; financial assets that are not derecognized in their entirety.

IAS 12 Income Taxes (Amendment)

IAS 12 amendments regarding Deferred Tax: Recovery of Underlying Assets introduces an exception to the existing principle for the measurement of deferred tax assets and liabilities arising on investment property measured at fair value, and the requirement that deferred tax on non-depreciable assets measured using the revaluation model in IAS 16 should always be measured on a sale basis.

(ii) New accounting standards impacting on or after July 1, 2012

IAS 1 Presentation of Financial Statements (Amendment)

The amendments to IAS 1 require companies preparing financial statements in accordance with IFRS to group together items within other comprehensive income ("OCI") that may be reclassified to the profit or loss section of the income statement. The amendments retain the "one or two statement" approach at the option of the entity and only revise the way other comprehensive income is presented: requiring separate subtotals for those elements that may be "recycled" (e.g., cash flow hedging, foreign currency translation), and those elements that will not (e.g., fair value through OCI items under IFRS 9). In addition, the tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax).

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(iii) 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 period, 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).

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.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

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.

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 periods beginning on or after February 1, 2013, with early adoption permitted.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

(iv) 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 periods beginning on or after February 1, 2014 and are required to be applied retrospectively.

(v) 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.

This standard is only applicable if it is optionally adopted for annual periods beginning before February 1, 2015. For annual periods 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*.

(Unaudited - Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

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

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

4. AMOUNTS RECEIVABLE

		October 31, 2012		January 31, 2012
HST and TVQ receivable	$	16,384	$	186,427
Mining exploration tax receivable* (note 5)		525,000		525,000
Trade receivables		8,853		-
Due from related parties (note 10)		-		5,588
	$	550,237	$	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 periods when the actual amounts are determined.

(Unaudited - Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS

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

	Goeland (a) $	Manouane (b) $	Lac des Iles (c) $	Champagne (d) $	Labelle (e) $	La Loutre (f) $	North Shore (g) $	Tetepisca (h) $	Total $
Acquisition costs									
Balance at January 31, 2012	375,000	168,428	-	-	-	-	-	-	543,428
Option payments	-	-	95,500	170,731	87,500	275,000	137,300	56,732	822,763
Balance at October 31, 2012	375,000	168,428	95,500	170,731	87,500	275,000	137,300	56,732	1,366,191
Exploration costs									
Balance at January 31, 2012	1,805,574	87,042	-	-	-	-	-	-	1,892,616
Road access work	-	-	-	-	-	-	-	-	-
Geophysics and airborne surveys	3,903	-	65,944	-	640	117,017	-	-	187,504
Sampling and analysis	94,313	6,390	-	-	-	3,460	-	-	104,163
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
Professional contractors	-	-	-	-	-	-	-	-	-
Drilling contractors	-	-	-	-	-	-	-	-	-
Rentals	1,560	-	-	-	-	-	-	-	1,560
Drilling supplies	-	-	-	-	-	-	-	-	-
Project support	12,107	-	-	-	-	-	-	-	12,107
Core logging	-	-	-	-	-	-	-	-	-
Balance at October 31, 2012	1,996,723	93,432	65,944	300	640	120,477	-	-	2,277,516
Mining exploration tax recoveries									
Balance at January 31, 2012	(470,000)	(55,000)	-	-	-	-	-	-	(525,000)
Additions	-	-	-	-	-	-	-	-	-
Balance at October 31, 2012	(470,000)	(55,000)	-	-	-	-	-	-	(525,000)
Carrying amount									
At February 1, 2010	-	-	-	-	-	-	-	-	-
At January 31, 2011	190,000	-	-	-	-	-	-	-	190,000
At January 31, 2012	1,710,574	200,470	-	-	-	-	-	-	1,911,044
At April 30, 2012	1,910,208	207,626	111,028	60,000	88,140	290,168	-	-	2,667,170
At July 31, 2012	1,901,723	206,860	147,444	66,031	88,140	377,017	2,300	56,372	2,845,887
At October 31, 2012	1,901,723	206,860	161,444	171,031	88,140	395,477	137,300	56,732	3,118,707

(Unaudited - Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS (Continued)

(a) Goeland Rare Earths Project

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 common shares as follows:

		Cash	Common shares
Upon signing (paid)	$	25,000	-
Upon TSX.V approval (issued)		-	1,000,000
12 months after TSX.V approval (issued)		-	500,000
24 months after TSX.V approval		-	500,000
36 months after TSX.V approval		-	500,000
	$	25,000	2,500,000

In conjunction with the completion of the transaction, a finder's fee of 100,000 common shares was issued upon TSX.V approval.

The optionor has retained a 2% net smelter return royalty ("NSR royalty") on the value of mineral produced and delivered from the property.

(b) Manouane Rare Earths Project

On July 27, 2011, the Company entered into an option agreement with a related party (note 10d), 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 as follows:

		Cash	Common shares
Upon signing (paid)	$	7,500	-
Upon TSX.V approval (issued)		-	350,000
	$	7,500	350,000

The optionor has not retained a NSR royalty on this property.

(Unaudited - Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS (Continued)

(c) Lac des Isles West Graphite Project

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. This agreement received TSX.V approval on March 16, 2012.

To exercise its option, the Company must provide cash payments of $12,500 and issue 500,000 common shares as follows:

		Cash	Common shares
Upon signing (paid)	$	12,500	-
Upon TSX.V approval (issued)		-	300,000
6 months after TSX.V approval (issued)		-	200,000
	$	12,500	500,000

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.

The optionor has not retained a NSR royalty on this property.

(d) Champagne Graphite Project

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 (conditional approval was obtained on August 31, 2012).

To exercise its option, the Company must provide cash payments of $390,000 and issue 6,000,000 common shares as follows:

(Unaudited - Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS (Continued)

(d) Champagne Graphite Project (continued)

		Cash	Common shares
Upon signing (paid)	$	60,000	-
Upon TSX.V conditional approval (issued) *(the“Approval Date”)*		-	1,500,000
Upon TSX.V final acceptance		-	1,500,000
6 months after the Approval Date		60,000	-
15 months after the Approval Date		135,000	1,500,000
24 months after the Approval Date		135,000	1,500,000
	$	390,000	6,000,000

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.

The optionor has retained a 2.0% NSR royalty on the value of mineral produced and delivered from the property. The Company has the option to purchase 1.0% of this NSR royalty for $1,000,000.

(e) Labelle Graphite Project

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 as follows:

(Unaudited - Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS (Continued)

(e) Labelle Graphite Project (continued)

		Cash	Common shares
Upon signing (paid)	$	15,000	-
Upon TSX.V approval (paid & issued)		15,000	250,000
12 months after TSX.V approval		15,000	250,000
	$	45,000	500,000

In addition to the above cash payments and common share issuances, the Company must complete a minimum of $50,000 of exploration within one year from the date of TSX.V approval.

The optionor has retained a 1.5% NSR royalty on the value of mineral produced and delivered from the property. The Company has the option to purchase 0.5% of this NSR royalty for $500,000.

(f) La Loutre Graphite Project

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. This agreement received TSX.V approval on March 16, 2012.

To exercise its option, the Company must provide cash payments of $75,000 and issue 2,000,000 common shares as follows:

		Cash	Common shares
Upon signing (paid)	$	15,000	-
Upon TSX.V approval (paid & issued)		15,000	1,000,000
6 months after TSX.V approval		15,000	-
12 months after TSX.V approval		15,000	500,000
18 months after TSX.V approval		15,000	500,000
	$	75,000	2,000,000

(Unaudited - Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS (Continued)

(f) La Loutre Graphite Project (continued)

In addition to the above cash payments and common share issuances, the Company must complete a minimum of $100,000 of exploration within one year from the date of TSX.V approval.
The optionor has retained a 1.5% NSR royalty on the value of mineral produced and delivered from the property. The Company has the option to purchase 0.5% of this NSR royalty for $500,000.

(g) North Shore Package Graphite Project

On July 18, 2012, and amended subsequent to the period ended July 31, 2012, the Company entered into an option agreement to acquire a 100% interest in the North Shore Package of Graphite Properties, consisting of 11 (eleven) 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 (collectively, the "North Shore Properties"), located primarily on the Quebec North Shore. This agreement is pending final TSX.V approval.

To exercise its option, the Company must provide cash payments of $75,000 and issue 6,000,000 common shares as follows:

		Cash	Common shares
Upon TSX.V conditional approval (issued)	$	-	1,500,000
Upon TSX.V final approval (the “Approval Date”)		30,000	1,500,000
6 months after the Approval Date		45,000	-
15 months after the Approval Date		-	1,500,000
24 months after the Approval Date		-	1,500,000
	$	75,000	6,000,000

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. The optionor has retained a 2% NSR royalty on the value of mineral produced and delivered from the property. The Company has the option to purchase 1% of this NSR royalty for $1,000,000.

(Unaudited - Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS (Continued)

(h) Tetepisca North Graphite Project

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 as follows:

		Cash	Common Shares
Upon signing ($10,000 paid)	$	25,000	-
Upon TSX.V approval (issued)		-	250,000
12 months after TSX.V approval		-	250,000
	$	25,000	500,000

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 5,000,000 tonnes or if the Company commences production, issue 1,000,000 common shares. The Company must also complete a minimum of $75,000 of exploration work within 18 months of TSX.V approval.

The optionor has retained a 1.5% NSR royalty on the value of mineral produced and delivered from the property. The Company has the option to purchase 0.5% of this NSR royalty for $250,000.

(Unaudited - Expressed in Canadian Dollars)

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 October 31, 2012	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	13,005	-	-	16,654
Balance at January 31, 2012 and October 31, 2012	6,286	25,338	10,930	-	42,554
Carrying amounts					
At January 31, 2011	563	2,634	-	72,476	75,673
At January 31, 2012 and October 31, 2012	27,763	93,344	-	-	121,107

(Unaudited - Expressed in Canadian Dollars)

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		October 31, 2012		January 31, 2012	
Trade payables	$	736,290	$	590,838	$
Accrued liabilities		-		32,000	
Due to Receiver General		-		402	
Due to related parties (note 10)		15,000		10,348	
	$	751,290	$	633,588	$

8. SHARE CAPITAL

(a) Authorized

Unlimited common shares without par value

(b) Issued and outstanding

During the period ended October 31, 2012:

(i) The Company issued 200,000 common shares pursuant to the Lac des Isles West option agreement on September 16, 2012. The total fair value of the common shares issued was $14,000.

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

(iii) 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; and

(iv) The Company issued a total of 1,550,000 common shares pursuant to the acquisitions of three Graphite properties (Lac des Iles West, La Loutre & Labelle) (note 5). The total fair value of the common shares issued for the Graphite properties was $356,500.

8. SHARE CAPITAL (Continued)

(b) Issued and outstanding (continued)

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

During the year ended January 31, 2012:

(vi) 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;

(vii) 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;

(viii) 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;

(ix) 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; and

(x) 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 October 31, 2012, there are 3,425,000 stock options outstanding.

(Unaudited - Expressed in Canadian Dollars)

8. SHARE CAPITAL (Continued)

(c) Stock options (continued)

A summary of the Company's stock options at October 31, 2012 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)	$	(0.45)
Expired	(175,000)	$	(0.45)
Balance at October 31, 2012	3,425,000	$	0.28

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

Expiry date		Exercise price	Options outstanding	Options exercisable
January 10, 2016	$	0.22	575,000	575,000
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	900,000	856,250
July 18, 2017	$	0.10	1,525,000	1,525,000
			3,425,000	3,381,250

(Unaudited - Expressed in Canadian Dollars)

8. SHARE CAPITAL (Continued)

(c) Stock options (continued)

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 periods. The Company recognized share-based payments expense based on vesting terms.

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:

	2012	2011
Risk-free interest rate	1.67%	2.58%
Expected dividend yield	0.00%	0.00%
Expected stock price volatility*	113.41%	117.63%
Expected life of options	4.7 years	5.0 years
Grant date fair value	$0.412	$0.225

* 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.

(Unaudited - Expressed in Canadian Dollars)

8. SHARE CAPITAL (Continued)

(c) Stock options (Continued)

Share-based payments expense for the years ended January 31, 2012 and 2011 are as follows:

		2012		2011
Directors	$	557,907	$	94,541
Officers		119,502		18,473
Consultants		165,733		89,348
	$	843,142	$	202,362

During the period ended October 31, 2012, a total of $62,563 share-based payments expense was recognized due to vested options.

(d) Share purchase warrants

A summary of the Company's share purchase warrants at October 31, 2012 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	7,308,000	$	0.20
Balance at October 31, 2012	10,826,064	$	0.32

The following table summarizes information about the share purchase warrants outstanding and exercisable at October 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
April 13, 2014	$	0.20	7,308,000
			10,826,064

(Unaudited - Expressed in Canadian Dollars)

8. SHARE CAPITAL (Continued)

(d) Share purchase warrants (continued)

The following table summarizes information about the share purchase warrants outstanding and exercisable at October 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
April 13, 2014	$	0.20	7,308,000
			10,826,064
Weighted average remaining contractual life in years			1.25

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

9. DISCONTINUED OPERATIONS

On July 15, 2010, the Company disposed of certain producing Canadian oil and gas interests for total proceeds comprising $300,000 in cash and 214,225 shares of Hemisphere Energy Corp. valued at $50,000.

Subsequent to the disposal of the oil and gas interests, the operations and cash flows of the component have been eliminated from the ongoing operations of the Company.

(Unaudited - Expressed in Canadian Dollars)

10. RELATED PARTY TRANSACTIONS

The following related party transactions took place during the period ended October 31, 2012:

(a) The Company was reimbursed $22,166 (2011 - $nil) for rent from companies controlled by common directors and officers of the Company for use of shared office space. As at October 31, 2012, the Company has an outstanding balance of $8,868 (January 31, 2012 - $5,588) receivable from these companies.

(b) The Company has accounts payable due to the President & CEO of the Company in the amount of $15,000 pursuant to the option agreements for La Loutre and the North Shore package.

The following related party transactions took place during the year ended January 31, 2012:

(c) The Company incurred $30,627 (2011 - $17,575) for rent, office expense and investor relations to companies controlled by common directors and officers of the Company for use of shared office space. As at January 31, 2012, the Company has an outstanding balance of $nil (January 31, 2011 - $15,684; February 1, 2010 - $115,805) payable to these companies;

(d) The Company was reimbursed $49,267 (2011 - $nil) for rent from companies controlled by common directors and officers of the Company for use of shared office space. As at January 31, 2012, the Company has an outstanding balance of $5,588 (January 31, 2011 - $nil; February 1, 2010 - $nil) receivable from these companies; and

(e) The Company entered into an option agreement on its Manouane property (note 5) with an officer of the Company. The officer resigned from the Company on February 27, 2012.

The remuneration of directors and other members of key management personnel during the periods ended October 31, 2012 and 2011 were as follows:

		2012		2011
Management and accounting fees	$	149,500	$	122,750
Share-based payments*		32,375		50,522
	$	181,875	$	173,272

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

11. FINANCIAL INSTRUMENTS

The Company has designated its cash and marketable securities as fair value through income or loss; amounts receivable, as loans and receivables; and accounts payable and accrued liabilities, as other financial liabilities.

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 October 31, 2012, is $3,078,817. 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 period ended October 31, 2012.

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 and amounts receivable. 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.

11. 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 October 31, 2012, in the amounts of $40,056 and $550,237, respectively, which is sufficient to meet its short-term business requirements. At October 31, 2012, the Company had accounts payable and accrued liabilities of $751,290 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.

12. COMMITMENTS

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.

13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

A detailed explanation of how the transition from previous GAAP to IFRS has affected the Company's financial position and comprehensive loss for the initial IFRS conversion is set out in note 15 of the year ended January 31, 2012 financial statements.

(a) IFRS exemptions

IFRS 1, which governs the first-time adoption of IFRS, in general requires accounting policies to be applied retrospectively to determine the opening financial position at the Company’s transition date of February 1, 2010, and allows certain exemptions on the transition to IFRS. The elections the Company has applied and that are considered significant to the Company include:

Share-based payments

IFRS 1 encourages, but does not require, first-time adopters to apply IFRS 2 to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the transition date. The Company has elected this exemption and will apply IFRS 2 only for unvested stock options as at February 1, 2010, being the transition date.

(b) Adjustments on transition to IFRS

IFRS has many similarities with GAAP, as it is based on a similar conceptual framework. However, there are important differences with regard to recognition, measurement and disclosure. The change to IFRS resulted in changes to the Company’s statements of financial position, loss and comprehensive loss, equity and cash flows as set out below.

13. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

(i) Share-based payments

Applying IFRS 2 to the stock options that vested during the year ended January 31, 2011 resulted in an increase of the share-based payments reserve of $80,972, with an increase in share-based payments expense and net loss for the year by an equal amount. There were no unvested stock options as at February 1, 2010 and, accordingly, no adjustment is required as at the transition date.

(ii) Impairment of assets

Applying IAS 36 to the its Canadian oil and gas interests, the Company recognized a recovery of a portion of the impaired value of its Canadian oil and gas interests in the amount of $135,095 for the year ended January 31, 2011. The corresponding change was a decrease to the gain on disposition of property and equipment of $135,095.

14. SUBSEQUENT EVENTS

Subsequent to October 31, 2012, the following transactions and events occurred:

(a) On November 5, 2012, the Company completed its AGM with all resolutions passed. As a result, Ron MacDonald, Mark Baggio, Jean-Sebastien Lavallee, Eileen Hao and Jenna-Lee Hardy were appointed as new Directors of the Company

(b) On November 8, 2012 (previously announced on October 9, 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. The proceeds of the financing will be used to advance the Company's graphite projects and for general working capital. The securities issued are subject to a hold period and may not be traded until March 9, 2013.

14. SUBSEQUENT EVENTS (continued)

(c) On December 4, 2012, the Company announced a brokered private placement to raise gross proceeds of up to $3,000,000 through the sale of up to 12,500,000 flow-through units at a price of $0.16 and up to 8,000,000 non flow-through units at a price of $0.125. Each flow-through unit will consist of one flow-through common share and one-half of one non-transferable share purchase warrant. Each full flow-through warrant entitles its holder to purchase one non flow-through common share at a price of $0.30 for a period of twelve months from the date of closing. Each non flow-through unit consists of one common share and one-half of one non-transferable; each full warrant entitles the holder to purchase one non flow-through common share at a price of $0.25 per share for a period of twelve months from the date of issue.