

**Micrex Development Corporation**

**CONSOLIDATED FINANCIAL STATEMENTS  
(EXPRESSED IN CANADIAN DOLLARS)**

For the years ended August 31, 2013 and 2012

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## Independent Auditor's Report

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### To the shareholders of Micrex Development Corporation

We have audited the accompanying consolidated financial statements of Micrex Development Corp., which comprise the consolidated statements of financial position as at August 31, 2013 and August 31, 2012, and the consolidated statements of comprehensive loss, consolidated statements of changes in shareholders' equity, and consolidated statements of cash flows for the years ended August 31, 2013 and August 31, 2012, and a summary of significant accounting policies and other explanatory information.

### Management's Responsibility for the Consolidated Financial Statements

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

### Auditor's Responsibility

Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated 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 consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

### Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Micrex Development Corp. as at August 31, 2013 and August 31, 2012 and its financial performance and its cash flows for the years ended August 31, 2013 and August 31, 2012 in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2(e) in the consolidated financial statements which states that the Company has incurred a loss of \$3,251,660 for the year ended August 31, 2013 (2012 - \$593,348) and, as of that date, the Company's current liabilities exceeded its current assets by \$489,394 (2012 - \$143,327) and Company's accumulated deficit was \$12,576,875 (2012 - \$9,325,215). These conditions, along with other matters as set forth in Note 2(e), indicate the existence of a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern.

*BDO Canada LLP*

Chartered Accountants  
Calgary, AB  
December 23, 2013

# Micrex Development Corporation

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION

Expressed in Canadian Dollars

| As at   | August 31, 2013     | August 31, 2012     |
|---|---------------------|---------------------|
| <b>Assets</b>                                     |                     |                     |
| <b>Current assets</b>                             |                     |                     |
| Cash and cash equivalents (Note 5)                | \$ 10,440           | \$ 91,478           |
| Prepaid expenses and deposits                     | 5,000               | 5,000               |
| Accounts receivable                               | 21,496              | 25,394              |
| <b>Total current assets</b>                       | <b>36,936</b>       | <b>121,872</b>      |
| <b>Non-current assets</b>                         |                     |                     |
| Exploration and evaluation assets (Note 6)        | 2,102,042           | 4,872,417           |
| Property, plant and equipment (Note 7)            | 7,564               | 10,804              |
| <b>Total non-current assets</b>                   | <b>2,109,606</b>    | <b>4,883,221</b>    |
| <b>Total assets</b>                               | <b>\$ 2,146,542</b> | <b>\$ 5,005,093</b> |
| <b>Liabilities and shareholders' equity</b>       |                     |                     |
| <b>Current liabilities</b>                        |                     |                     |
| Trade and other payables (Note 13)                | \$ 344,520          | \$ 73,049           |
| Due to shareholders and directors (Note 13)       | 181,810             | 69,650              |
| Other liabilities (Note 8)                        | -                   | 122,500             |
| <b>Total current liabilities</b>                  | <b>526,330</b>      | <b>265,199</b>      |
| <b>Non-current liabilities</b>                    |                     |                     |
| Promissory notes (Note 9)                         | 86,978              | -                   |
| <b>Total non-current liabilities</b>              | <b>86,978</b>       | <b>-</b>            |
| <b>Total liabilities</b>                          | <b>613,308</b>      | <b>265,199</b>      |
| <b>Shareholders' equity</b>                       |                     |                     |
| Share capital (Note 10)                           | 12,746,936          | 12,701,936          |
| Contributed surplus (Note 10)                     | 1,363,173           | 1,363,173           |
| Accumulated deficit                               | (12,576,875)        | (9,325,215)         |
| <b>Total shareholders' equity</b>                 | <b>1,533,234</b>    | <b>4,739,894</b>    |
| <b>Total liabilities and shareholders' equity</b> | <b>\$ 2,146,542</b> | <b>\$ 5,005,093</b> |

Signed on behalf of the Board of Directors by: "Dale Fetterly" (signed)

\_\_\_\_\_  
"Max Morpurgo" (signed)

The accompanying notes form an integral part of these consolidated financial statements.

# Micrex Development Corporation

## CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Expressed in Canadian Dollars

| For the years ended                                       | August 31, 2013       | August 31, 2012     |
|---|-----------------------|---------------------|
| <b>Expenses</b>   |                       |                     |
| Stock based compensation (Notes 11 and 13)                | \$ -                  | \$ 199,490          |
| Consulting fees (Note 13)                                 | 150,000               | 150,000             |
| Subcontract (Note 13)                                     | 112,200               | 185,771             |
| Professional fees (Note 13)                               | 117,695               | 155,349             |
| Insurance   | 732                   | 1,251               |
| Office  | 5,883                 | 9,608               |
| Depreciation (Note 7)                                     | 3,240                 | 4,623               |
| Travel and promotion                                      | 3,492                 | 10,245              |
| Automotive  | 4,279                 | 6,207               |
| Telephone   | 11,743                | 11,996              |
| Investor relations  | 16,165                | -                   |
| Bank charges  | 1,799                 | 490                 |
| Interest on promissory notes                              | 1,980                 | -                   |
| Impairment of mineral properties (Note 6)                 | 3,056,017             | -                   |
| Reversal of impairment on mineral properties (Note 6)     | (111,065)             | -                   |
| <b>Total expenses</b>                                     | <b>3,374,160</b>      | <b>735,030</b>      |
| <b>Other income</b>                                       | <b>-</b>              | <b>-</b>            |
| Interest income   | -                     | 1,682               |
| Other income (Note 8)                                     | 122,500               | 140,000             |
| <b>Total other income</b>                                 | <b>122,500</b>        | <b>141,682</b>      |
| <b>Net loss and comprehensive income for the year</b>     | <b>\$ (3,251,660)</b> | <b>\$ (593,348)</b> |
| <b>Loss per common share, basic and diluted (Note 15)</b> | <b>\$ (0.057)</b>     | <b>\$ (0.011)</b>   |

The accompanying notes form an integral part of these consolidated financial statements.

**Micrex Development Corporation**  
**CONSOLIDATED STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
Expressed in Canadian Dollars

|                                     | Share capital<br>(Note 10) | Contributed<br>surplus<br>(Note 10) | Accumulated<br>deficit | Total               |
|-------------------------------------|----------------------------|-------------------------------------|------------------------|---------------------|
| <b>Balance at September 1, 2011</b> | <b>\$ 11,978,456</b>       | <b>\$ 1,138,706</b>                 | <b>\$ (8,731,867)</b>  | <b>\$ 4,385,295</b> |
| Loss for the year                   | -                          | -                                   | (593,348)              | (593,348)           |
| Share capital issued (Note 10)      | 681,349                    | -                                   | -                      | 681,349             |
| Stock options issued                | -                          | 199,490                             | -                      | 199,490             |
| Broker warrants issued              | -                          | 24,977                              | -                      | 24,977              |
| Warrants exercised                  | 144,530                    | -                                   | -                      | 144,530             |
| Share issue costs                   | (102,399)                  | -                                   | -                      | (102,399)           |
| <b>Balance at August 31, 2012</b>   | <b>\$ 12,701,936</b>       | <b>\$ 1,363,173</b>                 | <b>\$ (9,325,215)</b>  | <b>\$ 4,739,894</b> |
| Loss for the year                   | -                          | -                                   | (3,251,660)            | (3,251,660)         |
| Share capital issued (Note 10)      | 45,000                     | -                                   | -                      | 45,000              |
| <b>Balance at August 31, 2013</b>   | <b>\$ 12,746,936</b>       | <b>\$ 1,363,173</b>                 | <b>\$ (12,576,875)</b> | <b>\$ 1,533,234</b> |

The accompanying notes form an integral part of these consolidated financial statements.

# Micrex Development Corporation

CONSOLIDATED STATEMENTS OF CASH FLOWS

Expressed in Canadian Dollars

| For the years ended   | August 31, 2013  | August 31, 2012  |
|---|------------------|------------------|
| <b>Cash flows from operating activities</b>                             |                  |                  |
| Loss for the year   | \$ (3,251,660)   | \$ (593,348)     |
| Adjustments to reconcile loss to net cash used in operating activities: |                  |                  |
| Depreciation (Note 7)   | 3,240            | 4,623            |
| Interest income   | -                | (1,682)          |
| Stock based compensation (Note 11)                                      | -                | 199,490          |
| Impairment of mineral properties (Note 6)                               | 3,056,017        | -                |
| Reversal of impairment on mineral properties (Note 6)                   | (111,065)        | -                |
| Changes in non-cash working capital balances:                           |                  |                  |
| Accounts receivable   | 3,898            | (11,761)         |
| Prepaid expenses and deposits   | -                | 280              |
| Trade and other payables  | 271,471          | 6,549            |
| Cash generated from operations  | (28,099)         | (395,849)        |
| Income tax renouncement, net (Note 8)                                   | (122,500)        | (17,500)         |
| <b>Total cash inflows (outflows) from operating activities</b>          | <b>(150,599)</b> | <b>(413,349)</b> |
| <b>Cash flows from investing activities</b>                             |                  |                  |
| Investment in exploration and evaluation assets                         | (129,577)        | (853,202)        |
| Interest received   | -                | 1,682            |
| <b>Total cash (outflows) from investing activities</b>                  | <b>(129,577)</b> | <b>(851,520)</b> |
| <b>Cash flows from financing activities</b>                             |                  |                  |
| Proceeds from share issuance  | -                | 636,349          |
| Costs of issue of shares  | -                | (77,422)         |
| Advances from (Repayment to) shareholders and directors                 | 112,160          | (66,750)         |
| Change in obligation to issue units                                     | -                | (10,000)         |
| Proceeds from promissory notes  | 86,978           | -                |
| Proceeds from exercise of warrants                                      | -                | 144,530          |
| <b>Total cash inflows from financing activities</b>                     | <b>199,138</b>   | <b>626,707</b>   |
| <b>Total decrease in cash during the year</b>                           | <b>(81,038)</b>  | <b>(638,162)</b> |
| <b>Cash and cash equivalents at beginning of year (Note 5)</b>          | <b>91,478</b>    | <b>729,640</b>   |
| <b>Cash and cash equivalents at end of year (Note 5)</b>                | <b>\$ 10,440</b> | <b>\$ 91,478</b> |

The accompanying notes form an integral part of these consolidated financial statements.



## 1. CORPORATE INFORMATION

Micrex Development Corporation's business activity is the exploration and evaluation of mineral properties in Canada and the United States. Micrex Development Corporation (the "Company") was incorporated under the Business Corporations Act (Alberta) on February 16, 1987. The Company is listed on the TSX Venture Exchange, having the symbol MIX, and is in the process of exploring its mineral properties.

The address of the Company's corporate office and principal place of business is 156 Laurier Drive, Edmonton, Alberta, Canada.

## 2. BASIS OF PREPARATION

### a) Statement of Compliance

The consolidated financial statements have been prepared in accordance and in compliance 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") effective as of August 31, 2013.

The consolidated financial statements were authorized for issue by the Board of Directors on December 23, 2013.

### b) Basis of Measurement

The consolidated financial statements have been prepared on a historical cost basis.

### c) Functional and Presentation Currency

The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

### d) Use of Estimates and Judgments

The preparation of consolidated financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment of complexity, or areas where assumptions and estimates are significant to the consolidated financial statements are disclosed in Note 4.

### e) Going Concern

The Company has not generated revenue from operations. The Company incurred a net loss of \$3,251,660 during the year ended August 31, 2013 (2012 - \$593,348) and, as of that date, the Company's current liabilities exceeded its current assets by \$489,394 (2012 - \$143,327) and Company's accumulated deficit was \$12,576,875 (2012 - \$9,325,215). As the Company is in the exploration stage, the recoverability of the costs incurred to date on exploration properties is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development of its properties and upon future profitable production or proceeds from the disposition of the properties and deferred exploration expenditures. The Company will periodically have to raise funds to continue operations and, although it has been successful in doing so in the past, there is no assurance it will be able to do so in the future. These matters indicate the existence of a material uncertainty that may cast significant doubt about the ability of the Company to continue to meet its obligations as they become due.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

### a) Basis of Consolidation

#### SUBSIDIARIES

The consolidated financial statements include the financial statements of the Company and subsidiaries controlled by the Company. Subsidiaries are fully consolidated from the date of acquisition, being the date on which the Company obtains control, and continue to be consolidated until the date that such control ceases. All intra-group balances, transactions, income and expenses are eliminated in full on consolidation.

# Micrex Development Corporation

NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS

Expressed in Canadian Dollars

For the years ended August 31, 2013 and 2012

The Company holds a 100% interest in Gee Cee Mines Ltd. which acts as a bare trustee and owns claims relating to the Wild Horse Placer Mine and the 100% interest in the Big Horn Mine property and its related equipment. The Company has recorded its interest in these claims at the purchase price of the shares plus amounts expended on development. Gee Cee Mines Ltd. has no other operations, assets or liabilities.

The financial statements of the subsidiaries are prepared using the same reporting period as the parent company, using consistent accounting policies

The following entities have been consolidated within the Company's financial statements:

| Entity                   | Registered | Holding | Principal activity               |
|--------------------------|------------|---------|----------------------------------|
| Micrex Development Corp. | Canada     | Parent  | Core business                    |
| Gee Cee Mines Ltd.       | Canada     | 100%    | Mineral properties rights holder |

## TRANSACTIONS ELIMINATED ON CONSOLIDATION

Intercompany balances and transactions, and any unrealized income and expenses arising from intercompany transactions, are eliminated in preparing the consolidated financial statements.

### b) Foreign Currency Transactions

Foreign currency accounts are translated into Canadian dollars as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the year-end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at the year-end date and the related translation differences are recognized in net income. Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated. Non-monetary assets and liabilities that are measured at fair value or a re-valued amount are translated into Canadian dollars by using the exchange rate in effect at the date the value is determined and the related translation differences are recognized in net income or other comprehensive income consistent with where the gain or loss on the underlying non-monetary asset or liability has been recognized.

### c) Cash and Cash Equivalents

Cash and cash equivalents include cash on hand and deposits held on call with a financial institution. For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts.

### d) Mineral Exploration and Evaluation Expenditures

#### PRE-EXPLORATION COSTS

Pre-exploration costs are expensed in the period in which they are incurred.

#### EXPLORATION AND EVALUATION EXPENDITURES

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures ("E&E") are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the transferee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the consolidated statement of comprehensive loss.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as 'mines under construction'. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Mineral exploration and evaluation expenditures are classified as intangible assets.

#### e) Reclamation Deposits

Cash which is subject to contractual restrictions on use is classified separately as reclamation deposits. Reclamation deposits are classified as loans and receivables.

#### f) Property, Plant and Equipment

##### RECOGNITION AND MEASUREMENT

On initial recognition, property, plant and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in the manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property, plant and equipment is subsequently measured at cost less accumulated depreciation, less any accumulated impairment losses, with the exception of land which is not depreciated.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

##### SUBSEQUENT COSTS, MAJOR MAINTENANCE AND REPAIRS

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably.

All other repairs and maintenance are charged to the profit or loss during the financial period in which they are incurred.

##### GAINS AND LOSSES

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within other income in profit or loss.

## DEPRECIATION

Depreciation is recognized in profit or loss and is provided on a declining balance basis over the estimated useful lives of the assets as follows:

|                        |     |
|------------------------|-----|
| Furniture and fixtures | 20% |
| Computer equipment     | 30% |
| Vehicles               | 30% |
| Field equipment        | 30% |

Depreciation methods, useful lives and residual values are reviewed at each financial year-end and adjusted if appropriate.

### g) Impairment of Non-Financial Assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year-end. Other non-financial assets, including exploration and evaluation assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets. The Company has six cash-generating units for which impairment testing is performed.

An impairment loss is charged to the profit or loss, except to the extent they reverse gains previously recognized in other comprehensive income.

### h) Financial Instruments

#### FINANCIAL ASSETS

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

#### Loans and Receivables

Loans and receivables include cash and cash equivalents, and accounts receivable. These assets are non-derivative financial assets resulting from the delivery of cash or other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

#### Impairment on Financial Assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

### FINANCIAL LIABILITIES

#### Financial Liabilities at Fair Value Through Profit and Loss

Financial liabilities at fair value through profit and loss include financial liabilities held for trading and financial liabilities designated upon initial recognition as fair value through profit or loss. The Company designates certain liabilities at fair value through profit and loss. Financial instruments included in this category include financial instrument embedded derivatives and derivatives entered into by the Company that are not designated as hedging instruments.

These instruments are measured at fair value, both initially and subsequently. The related transaction costs are expensed. Gains and losses arising from changes in fair value of these instruments are recorded in the consolidated statement of comprehensive loss.

Embedded derivatives are separated from the host contract and accounted for separately if the economic characteristics and risks of the host contract and the embedded derivative are not closely related, a separate instrument with the same terms as the embedded derivative would meet the definition of a derivative, and the combined instrument is not measured at "fair value through profit or loss". The embedded derivative of Company's promissory notes has is classified as financial liabilities at fair value through profit or loss.

#### Other Financial Liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise of trade and other payables, due to shareholder and directors, other liabilities, and promissory notes. These liabilities are initially recognized at fair value net of any transaction costs directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the consolidated statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the period which are unpaid. Trade payable amounts are unsecured and are usually paid within 30 days of recognition.

#### i) Provisions

##### REHABILITATION PROVISION

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities include restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environment disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur. Since inception, the Company has not recognized any rehabilitation provision for its mineral properties, as the Company's properties are still under the exploration and evaluation stage.

#### j) Income Taxes

Income tax expense comprises of current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive income.

Current income taxes are recognized for the estimated income taxes payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting nor taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

### k) Share Capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, preferred shares, share warrants and flow-through shares are classified as equity instruments.

Incremental costs directly attributable to the issue of new shares or options are shown in equity as a deduction, net of tax, from the proceeds.

### FLOW-THROUGH SHARES

The Company will from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received but not yet expended at the end of the Company's period is disclosed separately as flow-through share proceeds in Note 8.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

### EARNINGS / LOSS PER SHARE

Basic earnings/loss per share is computed by dividing the net income or loss applicable to common shares of the Company by the weighted average number of common shares outstanding for the relevant period.

Diluted earnings/loss per common share is computed by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding, if potentially dilutive instruments were converted.

### l) Share-based Payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged immediately to the consolidated statement of comprehensive income as the Company's options vest immediately.

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in comprehensive income over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive income, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management's best estimate, for the effects of non-transferability, exercise restrictions, and behavioural considerations.

All equity-settled share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued from treasury and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

### **m) Standards, Amendments and Interpretations Not Yet Effective**

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning on or after January 1, 2013.

The following new standards, amendments and interpretations, that have not been early adopted in these consolidated financial statements, will or may have an effect on the Company's future results and financial position:

- IFRS 7 Financial Instruments: Disclosures

In December 2011, the IASB amended IFRS 7, Disclosures - Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7), to provide new disclosure requirements that are intended to help investors and other users to better assess the effect or potential effect of offsetting arrangements on a Company's consolidated financial position. These amendments are effective for the Company beginning on September 1, 2013. The Company is currently evaluating the impact of these amendments to IFRS 7 on its consolidated financial statements.

- IFRS 9 Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The effective date of transition has not yet been determined. The Company is yet to assess the full impact of IFRS 9.

- IFRS 10 Consolidated Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is yet to assess the full impact of IFRS 10 and intends to adopt the standard no later than the accounting period beginning on September 1, 2013. This standard has made various consequential amendments to IAS 1, IAS 27 and IAS 28. The Company is yet to assess the full impact of IFRS 10.

- IFRS 11 Joint Arrangements

IFRS 11 describes the accounting for arrangements in which there is joint control; proportionate consolidation is not permitted for joint ventures (as newly defined). IFRS 11 replaces IAS 31 Interests in Joint Ventures and SIC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. The Company is yet to assess the full impact of IFRS 11 and intends to adopt the standard no later than the accounting period beginning on September 1, 2013.

- IFRS 12 Disclosures of Interests in Other Entities

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company is yet to assess the full impact of IFRS 12 and intends to adopt the standard no later than the accounting period beginning on September 1, 2013.



- IFRS 13 Fair Value Measurement

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRSs. The requirements, which are largely aligned between IFRSs and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRSs or US GAAP. The Company is yet to assess the full impact of IFRS 13 and intends to adopt the standard no later than the accounting period beginning on September 1, 2013.

- IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine

In IFRIC 20, the IFRS Interpretations Committee sets out principles for the recognition of production stripping costs in the consolidated statement of financial position. The interpretation recognizes that some production stripping in surface mining activity will benefit production in future periods and sets out criteria for capitalizing such costs. While the Company is not yet in the production phase, the Company is currently assessing the future impact of this interpretation.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

Micrex Development Corporation makes estimates and assumptions about the future that affect the reported amounts of assets and liabilities. Estimates and judgments are continually evaluated based on historical experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. In the future, actual experience may differ from these estimates and assumptions.

The effect of a change in an accounting estimate is recognized prospectively by including it in comprehensive income in the period of the change, if the change affects that period only, or in the period of the change and future periods, if the change affects both.

### CRITICAL JUDGMENTS

Information about critical judgments in applying accounting policies that have the most significant risk of causing material adjustment to the carrying amounts of assets and liabilities recognized in the consolidated financial statements within the next financial year are discussed below:

#### i) Mineral Property Exploration and Evaluation Expenditure

The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the profit or loss in the period the new information becomes available.

#### ii) Title to Mineral Property Interests

Although the Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to prior agreements or transfers and title may be affected by undetected defects.

#### iii) Rehabilitation Provisions

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including rehabilitation provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and also on properties in which it has previously had an interest.

The Company believes it conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.



### iv) Income Taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

### CRITICAL ACCOUNTING ESTIMATES

#### i) Mineral Property Exploration and Evaluation Expenditure

The Company is in the process of exploring its mineral properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The amounts shown as mineral exploration and evaluation assets represent costs incurred after the acquisition of a qualifying technical evaluation less impairment, which the Company has chosen to defer until it gathers sufficient data on the mineral properties to determine if mineral reserves exist in large enough quantities of a sufficient grade to permit the economic recovery of such resources. The costs deferred do not necessarily represent present or future values. The recoverability of these amounts is dependent upon the discovery of economically recoverable mineral reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, commodity prices, changes in environmental and other government regulations, political and economic factors and future profitable production or proceeds from the disposition thereof. The recoverable amount is the greater of its value-in-use and its fair value less costs to sell. Value-in-use calculations require estimates for future recoverable resources, future commodity prices, expected future operating and capital costs and the current market assessment of the time value of money. Fair value less costs to sell involves estimates of the arm's length transaction price between knowledgeable, willing parties less the costs of disposal.

#### ii) Share-based Payment Transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Note 11.

## 5. CASH AND CASH EQUIVALENTS

Cash at banks earns interest at floating rates based on daily bank deposit rates.

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## 6. EXPLORATION AND EVALUATION ASSETS

|                              | Burmis       | Big Horn   | Deadwood   | Quebec       | Mount Royal | Total        |
|------------------------------|--------------|------------|------------|--------------|-------------|--------------|
| Balance at September 1, 2011 | \$ 2,494,463 | \$ 869,231 | \$ -       | \$ 610,521   | \$ -        | \$ 3,974,215 |
| Exploration costs            | 5,732        | 32,104     | 133,476    | 726,890      | -           | 898,202      |
| Balance at August 31, 2012   | 2,500,195    | 901,335    | 133,476    | 1,337,411    | -           | 4,872,417    |
| Exploration costs            | 2,744        | 1,743      | -          | 170,090      | -           | 174,577      |
| Impairment                   | (2,502,939)  | (553,078)  | -          | -            | -           | (3,056,017)  |
| Impairment reversal          | -            | -          | -          | -            | 111,065     | 111,065      |
| Balance at August 31, 2013   | \$ -         | \$ 350,000 | \$ 133,476 | \$ 1,507,501 | \$ 111,065  | \$ 2,102,042 |

The Company assessed its future plans for its mineral exploration and evaluation assets and determined there are indicators of impairment. As a result, the Company has decided to record an impairment loss for its Burmis and Big Horn mineral properties based on Management's best estimate of fair value less costs to sell, recognizing an impairment of \$3,056,017 (2012 - \$nil).

**Burmis Magnetite Mine, Alberta:** The Company has a 32% (2012 - 32%) interest in the claims and 100% interest in all production from the claims relating to the Burmis Magnetite deposit located in the Crownsnest Pass area of Alberta. The Company originally acquired a 12% equity interest in this property in 1997 by the issuance of 100,000 common shares having a value of \$103,000, plus \$10,000 cash, plus a \$200,000 expenditure commitment which was fulfilled in a previous year. The purchase agreement provides the Company the right to acquire an additional 2% interest per year by the annual payment of \$70,000 by way of cash or common shares or the Company can purchase outright the remaining interest at any time. Accordingly, future payments totaling \$2,380,000 would be necessary to acquire the remaining 68% interest, although there is no commitment in place to acquire this additional interest. Management has assessed this property and has determined there to be an impairment in value. As a result the value of this property has been written down to zero, however, the Company still holds a valid license on the property.

**Big Horn Mine, British Columbia:** The Company has an 87.5% (2012 - 87.5%) interest in the Big Horn hard rock mine located in the Atlin area of British Columbia. In the 2007 year, the Company sold a 12.5% interest in this site to an arm's length third party for proceeds of \$300,000, resulting in a gain on disposition of \$187,613. This property was acquired in 1993 by the issuance of 2,747,283 common shares having a value of \$631,875 (\$159,270 for equipment; \$472,605 for mining property). Management has assessed this property and has determined there to be an impairment in value. As a result the value of this property has been written down to \$350,000, however, the Company still holds a valid license on the property.

**Deadwood Mine, New Mexico:** The Company owns a 100% (2012 - 100%) interest in the Deadwood patented hard rock mine and Sunburst patented hard rock mine claim located in Catron County, New Mexico, U.S.A. The Company owns the land and mineral rights. The license is current on this property and the Company still considers it as an active property.

**St. Charles de Bourget, Quebec:** The Company owns a 33% (2012 31%) interest in the claims and 100% interest in all production from the claims relating to the Quebec magnetite deposit located near Chicoutimi, Quebec, Canada. The Company originally acquired a 12% interest in this property in the 2005 fiscal year by the issuance of 290,323 common shares having a fair value of \$90,290. The purchase agreement provides the Company the right to acquire an additional 2% interest per year by an annual payment of \$45,000 by way of cash or common shares or the Company can purchase outright the remaining equity interest at any time. In the current year 450,000 (2012 - 346,154) common shares were issued to purchase another 2% interest. Accordingly, future payments totalling \$1,520,000 would acquire the remaining 67% interest, although there is no commitment to acquire this additional interest. The interest is subject to a gross overriding royalty to the vendor upon commencement of production at the greater of 1% of gross sales or \$0.25 per ton.

**Wild Horse, British Columbia:** The Company owns 100% (2012 - 100%) interest in Wild Horse placer mine located in Fort Steele, British Columbia. This property was originally acquired in 1996, however management has assessed this property and has determined there to be an impairment in value. As a result the value of this property has been written down to zero, however, the Company still holds a valid license on the property.

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Mount Royal, New Mexico: The Company owns a 33% (2012 - 33%) interest in the Mount Royal patented hard rock mine claim located in the Steeple Rock district of New Mexico, U.S.A. The Company owns the land and mineral rights. Management had assessed this property and had determined there to be an impairment in value in prior years and this property had been written down to zero. However, during fiscal 2013, Management's best estimate of fair value less costs to sell for the property has been revisited, and the Company has reverted the property impairment by \$111,065. The Company still holds a valid license on the property.

As of August 31, 2013, depreciation of \$nil (2012 - \$nil) has been capitalized to exploration and evaluation activities.

## 7. PROPERTY, PLANT AND EQUIPMENT

|   | Furniture and fixtures | Computer equipment | Vehicles  | Field equipment | Total      |
|---|------------------------|--------------------|-----------|-----------------|------------|
| <b>Cost</b>                               |                        |                    |           |                 |            |
| Balance at September 1, 2011              | \$ 750                 | \$ 50,608          | \$ 40,540 | \$ 415,250      | \$ 507,148 |
| Additions                                 | -                      | -                  | -         | -               | -          |
| Balance at August 31, 2012 and 2013       | 750                    | 50,608             | 40,540    | 415,250         | 507,148    |
| <b>Depreciation and impairment losses</b> |                        |                    |           |                 |            |
| Balance at September 1, 2011              | 713                    | 37,807             | 39,566    | 413,635         | 491,721    |
| Depreciation for the year                 | 7                      | 3,840              | 292       | 484             | 4,623      |
| Balance at August 31, 2012                | 720                    | 41,647             | 39,858    | 414,119         | 496,344    |
| Depreciation for the period               | 6                      | 2,690              | 205       | 339             | 3,240      |
| Balance at August 31, 2013                | \$ 726                 | \$ 44,337          | \$ 40,063 | \$ 414,458      | \$ 499,584 |
| <b>Carrying amounts</b>                   |                        |                    |           |                 |            |
| At August 31, 2012                        | \$ 30                  | \$ 8,961           | \$ 682    | \$ 1,131        | \$ 10,804  |
| At August 31, 2013                        | \$ 24                  | \$ 6,271           | \$ 477    | \$ 792          | \$ 7,564   |

## 8. OTHER LIABILITIES

Other liabilities include the liability portion of the flow-through shares issued. The following is a continuity schedule of the liability portion of the flow-through shares issuances.

### a) Flow-through Shares

|  | Total      |
|--|------------|
| Balance at September 1, 2011   | \$ 140,000 |
| Liability incurred on flow-through shares issued on March 12, 2012   | 122,500    |
| Settlement of flow-through share liability on incurring expenditures | (140,000)  |
| Balance at August 31, 2012   | 122,500    |
| Settlement of flow-through share liability on incurring expenditures | (122,500)  |
| Balance at August 31, 2013   | \$ -       |

## 9. PROMISSORY NOTES

The Company entered into promissory note arrangements in the total amount of \$85,000 during the year. The principal amount is repayable on December 31, 2014. Interest is payable on the principal amount outstanding at 6% per annum, calculated annually, with interest on the outstanding principal payable semi-annually on June 30 and December 31 of each year commencing June 30, 2013.

As additional compensation for making these loans the Company granted the holder warrants, each warrant entitling the holder to purchase one common share from treasury for \$0.10 until December 31, 2014. The amount of warrants to be issued is equal to 40% of the principal amount divided by \$0.10. The total number of warrants issued was 340,000. Management has determined that the fair value of the warrants issued was nominal.

As security for its obligations the Company will grant to the holders, upon request, a first ranking general security interest against its present and after acquired property.

Under the promissory notes agreement, in the event of a change of Company's control, the holder is entitled to put the promissory notes to the Company at 101% of par, plus accrued and unpaid interest, if any, to the date of purchase. This option is considered to be an embedded derivative.

The fair value of promissory notes embedded derivative financial instrument was estimated at issuance as being the fair value of the put option weighed for Management's expectation, at the issue date, of the probability of a change in Company's control, which has been determined to be nil. Therefore, the fair value of the promissory notes embedded derivative was assessed to be nil at grant date.

There were no changes to the derivative financial instrument fair value from the date of issue to August 31, 2013.

## 10. SHARE CAPITAL AND RESERVES

### a) Common Shares

The Company is authorized to issue an unlimited number of common voting shares.

The holders of common shares are entitled to receive dividends which are declared from time to time, and are entitled to one vote per share at meetings of the Company. All shares are ranked equally with regards to the Company's residual assets.

The following is a summary of changes in common share capital from September 1, 2011 to August 31, 2013:

|   | Number of<br>shares | Issue<br>price | Amount               |
|---|---------------------|----------------|----------------------|
| <b>Balance at September 1, 2011</b>         | <b>52,079,757</b>   |                | <b>\$ 11,978,456</b> |
| Shares issued via private placement         | 555,000             | \$ 0.20        | 111,000              |
| Issue of shares on exercise of warrants     | 122,000             | \$ 0.10        | 12,200               |
| Issue of shares on exercise of warrants     | 882,200             | \$ 0.15        | 132,330              |
| Flow-through share issuance                 | 2,450,000           | \$ 0.20        | 367,500              |
| Shares issued via private placement         | 1,052,328           | \$ 0.15        | 157,849              |
| Issued for acquisition of mining properties | 346,154             | \$ 0.13        | 45,000               |
| Less share issue costs                      |                     |                | (102,399)            |
| <b>Balance at August 31, 2012</b>           | <b>57,487,439</b>   |                | <b>12,701,936</b>    |
| Issued for acquisition of mining properties | 450,000             | \$ 0.10        | 45,000               |
| <b>Balance at August 31, 2013</b>           | <b>57,937,439</b>   |                | <b>\$ 12,746,936</b> |

On August 28, 2013, 450,000 common shares were issued for a 2% interest acquisition in the St. Charles mineral properties for a total value of \$45,000. The shares were issued at the fair value of \$0.10 per share.

On June 26, 2012, 346,154 common shares were issued for a 2% interest acquisition in the St. Charles mineral properties for a total value of \$45,000. The shares were issued at the fair value of \$0.13 per share.

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On March 12, 2012, the Company issued 1,052,328 units at \$0.15 per unit for gross proceeds of \$157,849 and 2,450,000 flow-through shares at \$0.20 per share for gross proceeds of \$490,000. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to subscribe an additional common share at an exercise price of \$0.30 for a period of 18 months from closing. Brokers commissions of \$51,748 were paid and 277,520 broker warrants were issued in connection with this financing. Each broker warrant entitles the holder to subscribe for one additional unit for eighteen months from closing at the issue price of \$0.15. No insiders purchased units. As at August 31, 2013, the Company had an unspent flow through commitment of \$370,000. These expenditures must be incurred by December 31, 2013.

On October 4, 2011, the Company finalized a non-brokered private placement of \$111,000 by the issuance of 555,000 Units at \$0.20 per Unit. Each Unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to subscribe an additional common share at an exercise price of \$0.27 for a period of 18 months from closing. Insiders purchased units totaling \$18,000.

During the year, nil (2012 - 1,004,200) warrants were exercised for proceeds of \$nil (2012 - \$144,530).

## b) Preferred Shares

The Company is authorized to issue 10,000,000 preferred shares and 10,000,000 convertible preferred shares. Preferred shares and convertible preferred shares may be issued in one or more series. The directors are authorized to fix the number of shares in each series to determine the designation, rights, privileges, restrictions and conditions attached to the shares of each series.

No preferred shares have been issued since the Company's inception.

## c) Contributed Surplus

The following is a summary of changes in contributed surplus from September 1, 2011 to August 31, 2013:

|  | August 31, 2013     | August 31, 2012     |
|--|---------------------|---------------------|
| Prior year ending contributed surplus amount | \$ 1,363,173        | \$ 1,138,706        |
| Fair value of stock options issued (Note 11) | -                   | 199,490             |
| Fair value of broker warrants issued         | -                   | 24,977              |
| <b>Contributed Surplus</b>                   | <b>\$ 1,363,173</b> | <b>\$ 1,363,173</b> |

The fair value of the warrants issued in the years ended August 31, 2013 and August 31, 2012, using the Black-Scholes option pricing model, are as follows:

March 12, 2012: The assumptions utilized in determining the value of 277,500 broker warrants issued was at a share price of \$0.12, a strike price of \$0.15, a risk-free interest rate of 1.39%, volatility of 187%, expected yield of nil, and a maturity of 1.5 years. The estimate of the fair value of the warrants issued is \$24,977.

## d) Share Purchase Warrants

The following is a summary of changes in warrants from September 1, 2011 to August 31, 2013:

|  | Number of Warrants |
|--|--------------------|
| <b>Balance as at September 1, 2011</b> | <b>10,942,800</b>  |
| Issue of warrants                      | 1,600,688          |
| Expiry of warrants                     | (3,311,200)        |
| Exercised warrants                     | (1,004,200)        |
| <b>Balance as at August 31, 2012</b>   | <b>8,228,088</b>   |
| Issue of warrants                      | 340,000            |
| Expiry of warrants                     | (1,996,700)        |
| <b>Balance as at August 31, 2013</b>   | <b>6,571,388</b>   |

As at August 31, 2013, the Company had outstanding warrants as follows:

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| Number of warrants | Exercise price | Weighted average contractual life remaining (years) | Expiry date |
|--------------------|----------------|---|-------------|
| 4,908,200          | \$ 0.15        | 0.10  | 07-Oct-2013 |
| 277,520            | \$ 0.30        | 0.36  | 10-Jan-2014 |
| 1,045,668          | \$ 0.30        | 0.36  | 10-Jan-2014 |
| 340,000            | \$ 0.10        | 1.33  | 31-Dec-2014 |
| 6,571,388          |                | 0.22  |             |

## e) Nature and Purpose of Equity and Reserves

The reserves recorded in shareholders' equity on the Company's consolidated statement of financial position include 'Contributed Surplus', and 'Accumulated Deficit'.

'Contributed Surplus' is used to recognize the value of stock option grants and broker warrants/options prior to exercise.

'Accumulated Deficit' is used to record the Company's change in deficit from earnings from year to year.

## 11. SHARE-BASED PAYMENTS

### a) Option Plan Details

The Company has a stock option plan administered by the Board of Directors under which the Company may reserve a maximum of 10% of the issued and outstanding listed common shares. Under this plan, the Company currently has outstanding options for 5,506,979 (2012 - 5,748,743) common shares, having various exercise prices as determined on the date of issuance of the options. The options have no vesting period, may be exercised at any time within five years of issuance and expire thirty days following the date the optionee ceases to be a director, officer or employee, or one year following the date of death of the optionee. All options issued are exercisable as at the end of the year.

The following is a summary of changes in stock options from September 1, 2012 to August 31, 2013:

| Grant Date                      | Expiry Date | Exercise Price | Opening Balance | During the Year |           |           | Closing Balance | Vested and Exercisable | Unvested | Remaining Contractual Life |
|---------------------------------|-------------|----------------|-----------------|-----------------|-----------|-----------|-----------------|------------------------|----------|----------------------------|
|                                 |             |                |                 | Granted         | Exercised | Lapsed    |                 |                        |          |                            |
| 02/22/2008                      | 02/22/2013  | \$0.18         | 241,764         | -               | -         | (241,764) | -               | -                      | -        | -                          |
| 01/02/2009                      | 01/02/2014  | \$0.10         | 234,336         | -               | -         | -         | 234,336         | 234,336                | -        | 0.3                        |
| 07/06/2009                      | 07/06/2014  | \$0.10         | 565,000         | -               | -         | -         | 565,000         | 565,000                | -        | 0.9                        |
| 04/15/2010                      | 04/15/2015  | \$0.17         | 870,000         | -               | -         | -         | 870,000         | 870,000                | -        | 1.6                        |
| 10/18/2010                      | 10/18/2015  | \$0.11         | 746,000         | -               | -         | -         | 746,000         | 746,000                | -        | 2.1                        |
| 01/06/2011                      | 01/06/2016  | \$0.22         | 375,521         | -               | -         | -         | 375,521         | 375,521                | -        | 2.4                        |
| 03/24/2011                      | 03/24/2016  | \$0.24         | 968,570         | -               | -         | -         | 968,570         | 968,570                | -        | 2.6                        |
| 12/09/2011                      | 12/09/2016  | \$0.16         | 381,484         | -               | -         | -         | 381,484         | 381,484                | -        | 3.3                        |
| 04/24/2012                      | 04/24/2017  | \$0.10         | 578,452         | -               | -         | -         | 578,452         | 578,452                | -        | 3.6                        |
| 07/16/2012                      | 07/16/2017  | \$0.10         | 787,616         | -               | -         | -         | 787,616         | 787,616                | -        | 3.9                        |
|                                 |             |                | 5,748,743       | -               | -         | (241,764) | 5,506,979       | 5,506,979              | -        | 2.0                        |
| Weighted Average Exercise Price |             | \$ 0.15        | \$ -            | \$ -            | \$ 0.18   | \$ 0.15   | \$ 0.15         | \$ -                   | \$ -     | -                          |

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The following is a summary of changes in stock options from September 1, 2011 to August 31, 2012:

| Grant Date                      | Expiry Date | Exercise Price | Opening Balance | During the Year |           |           | Closing Balance | Vested and Exercisable | Unvested | Remaining Contractual Life |
|---------------------------------|-------------|----------------|-----------------|-----------------|-----------|-----------|-----------------|------------------------|----------|----------------------------|
|                                 |             |                |                 | Granted         | Exercised | Lapsed    |                 |                        |          |                            |
| 02/13/2007                      | 02/13/2012  | \$0.29         | 140,000         | -               | -         | (140,000) | -               | -                      | -        | -                          |
| 05/30/2007                      | 05/30/2012  | \$0.27         | 673,000         | -               | -         | (673,000) | -               | -                      | -        | -                          |
| 07/04/2007                      | 07/04/2012  | \$0.25         | 80,000          | -               | -         | (80,000)  | -               | -                      | -        | -                          |
| 02/22/2008                      | 02/22/2013  | \$0.18         | 241,764         | -               | -         | -         | 241,764         | 241,764                | -        | 0.5                        |
| 01/02/2009                      | 01/02/2014  | \$0.10         | 234,336         | -               | -         | -         | 234,336         | 234,336                | -        | 1.3                        |
| 07/06/2009                      | 07/06/2014  | \$0.10         | 565,000         | -               | -         | -         | 565,000         | 565,000                | -        | 1.9                        |
| 04/15/2010                      | 04/15/2015  | \$0.17         | 870,000         | -               | -         | -         | 870,000         | 870,000                | -        | 2.6                        |
| 10/18/2010                      | 10/18/2015  | \$0.11         | 746,000         | -               | -         | -         | 746,000         | 746,000                | -        | 3.1                        |
| 01/06/2011                      | 01/06/2016  | \$0.22         | 375,521         | -               | -         | -         | 375,521         | 375,521                | -        | 3.4                        |
| 03/24/2011                      | 03/24/2016  | \$0.24         | 968,570         | -               | -         | -         | 968,570         | 968,570                | -        | 3.6                        |
| 12/09/2011                      | 12/09/2016  | \$0.16         | -               | 381,484         | -         | -         | 381,484         | 381,484                | -        | 4.3                        |
| 04/24/2012                      | 04/24/2017  | \$0.10         | -               | 578,452         | -         | -         | 578,452         | 578,452                | -        | 4.6                        |
| 07/16/2012                      | 07/16/2017  | \$0.10         | -               | 787,616         | -         | -         | 787,616         | 787,616                | -        | 4.9                        |
|                                 |             |                | 4,894,191       | 1,747,552       | -         | (893,000) | 5,748,743       | 5,748,743              | -        | 3.0                        |
| Weighted Average Exercise Price |             | \$ 0.19        | \$ 0.11         | \$ -            | \$ 0.27   | \$ 0.15   | \$ 0.15         | \$ -                   | \$ -     | -                          |

The fair value of the share options granted in the years ended August 31, 2013 and August 31, 2012, using the Black-Scholes option pricing model, are as follows:

July 16, 2012: The assumptions utilized in determining the value of 787,616 stock options issued to two directors, one shareholder and two employees were a share price of \$0.10, a strike price of \$0.10, a risk-free interest rate of 1.13%, volatility of 188%, expected dividend yield of nil, and a maturity of 5 years. The estimate of the fair value of the options issued is \$78,762, which are fully vested. The Company has estimated a 0% forfeiture rate, as the options vested immediately.

April 24, 2012: The assumptions utilized in determining the value of 578,452 stock options issued to three directors, the corporate secretary and one employee were a share price of \$0.09, a strike price of \$0.10, a risk-free interest rate of 1.19%, volatility of 185%, expected dividend yield of nil, and a maturity of 5 years. The estimate of the fair value of the options issued is \$52,061, which are fully vested. The Company has estimated a 0% forfeiture rate, as the options vested immediately.

December 9, 2011: The assumptions utilized in determining the value of 381,484 stock options issued to four directors was at a share price of \$0.18, a strike price of \$0.16, a risk-free interest rate of 1.21%, volatility of 187%, expected dividend yield of nil, and a maturity of 5 years. The estimate of the fair value of the options issued is \$68,667, which are fully vested. The Company has estimated a 0% forfeiture rate.

Total stock based compensation expense for the year was \$nil (2012 - \$199,490). Option pricing models require the input of subjective assumptions and, accordingly, the fair value estimates can vary as a result of changes in the assumptions.

Volatility was determined based on Company's historical share prices.

## b) Fair Value of Options Issued During the Period

The weighted average fair value at grant date of stock options granted during the year ended August 31, 2013 was \$nil per option (2012 - \$0.11).

## OPTIONS ISSUED TO EMPLOYEES

The fair value at grant date is determined using the Black-Scholes option pricing model that takes into account the exercise price, the term of the option, the impact of dilution, the share price at grant date and expected price volatility of the underlying share, the expected dividend yield and the risk free interest rate for the term of the option.



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## OPTIONS ISSUED TO NON-EMPLOYEES

Options issued to non-employees are measured based on the fair value of the goods or services received at the date of receiving those goods or services. If the fair value of the goods or services received cannot be estimated reliably the options are measured by determining the fair value of the options granted, using a valuation model.

## 12. INCOME TAXES

The Company's effective tax rate for the year ending August 31, 2013 decreased to 25.0% (2012 - 25.5%) due to changes in the income tax legislation.

The difference between tax expense for the year and the expected income taxes based on the statutory tax rate are as follows:

|  | August 31, 2013 | August 31, 2012 |
|--|-----------------|-----------------|
| Loss before income taxes   | \$ (3,251,660)  | \$ (593,348)    |
| Tax recovery based on the statutory rate of 25.0% (2012 - 25.5%) | (812,915)       | (151,304)       |
| Stock based compensation not deductible for tax                  | -               | 50,870          |
| Flow-through share premium                                       | (30,625)        | (35,700)        |
| Change in tax rates  | -               | 2,658           |
| Renounced expenditures   | 126,993         | 156,083         |
| Tax pool adjustments   | -               | 435,478         |
| Non-deductible expenses  | 1,922           | 593             |
| Change in unrecognized deferred tax assets                       | 714,625         | (458,678)       |
| <b>Total income tax expense (recovery)</b>                       | <b>\$ -</b>     | <b>\$ -</b>     |

## Deferred Tax Assets and Liabilities

A deferred tax asset (liability) has not been recognized for the following:

|  | August 31, 2013   | August 31, 2012  |
|--|-------------------|------------------|
| Property, plant and equipment            | \$ 20,849         | \$ 29,414        |
| Exploration and evaluation assets        | (340,410)         | (937,310)        |
| Deferred financing and share issue costs | 29,773            | 44,711           |
| Non-capital losses carried forward       | 1,078,678         | 937,450          |
|  | <b>\$ 788,890</b> | <b>\$ 74,265</b> |

Deferred tax assets have not been recognized in respect of all tax losses and other temporary differences giving rise to deferred tax assets where the directors believe it is unlikely that these assets will be recovered.

As at August 31, 2013, the Company had estimated capital losses for Canadian tax purposes of \$nil. These losses do not expire and may be utilized to reduce future capital gains, if any.

As at August 31, 2013, the Company has estimated non-capital losses for Canadian income tax purposes that may be carried forward to reduce taxable income derived in future years. A summary of these tax losses is provided below.



**Tax Losses**

These tax losses will expire as follows:

| Year of expiry | Taxable losses      |
|----------------|---------------------|
| 2014           | \$ 270,442          |
| 2015           | 300,787             |
| 2026           | 358,184             |
| 2027           | 314,318             |
| 2028           | 594,187             |
| 2030           | 609,686             |
| 2031           | 617,113             |
| 2032           | 685,081             |
| 2033           | 564,913             |
| <b>Total</b>   | <b>\$ 4,314,711</b> |

**13. RELATED PARTY TRANSACTIONS**

The following is a summary of the Company's related party transactions during the period:

**a) Due to Shareholders and Directors**

The balance of \$181,810 (2012 - \$69,650) due to shareholders and directors are unsecured, non interest bearing and are due on demand.

**b) Promissory Notes**

From the total amount of \$85,000 in promissory notes issued during the year (Note 9), \$40,000 was from related parties.

**c) Legal Fees**

Legal fees of \$25,001 (2012 - \$40,985), incurred in connection with the Company's financings as well as general corporate matters, were paid to a law firm of which one partner is corporate secretary of the Company. At August 31, 2013, \$22,896 (2012 - \$1,977) owing to this legal firm was included in accounts payable. The transactions occurred in the normal course of operations and are recorded at the exchange amount which represents the consideration established and agreed to by the related parties.

**d) Subcontract Services**

During the year, the Company recorded expenses of \$112,200 (2012 - \$185,771) to certain shareholders for subcontract services. At August 31, 2013, \$26,800 (2012 - \$10,600) owing was included in accounts payable. The transactions occurred in the normal course of operations and are recorded at the exchange amount which represents the consideration established and agreed to by the related parties.

**e) Key Management Compensation**

Key management personnel compensation comprised:

|  | August 31, 2013   | August 31, 2012   |
|--|-------------------|-------------------|
| Short term employee benefits and consulting fees | \$ 150,000        | \$ 150,000        |
| Share-based payments                             | -                 | 199,490           |
|  | <b>\$ 150,000</b> | <b>\$ 349,490</b> |

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## 14. SEGMENTAL REPORTING

The Company is organized into business units based on mineral properties and has one reportable operating segment, being that of acquisition and exploration and evaluation activities.

|               | 2013 Property<br>and equipment<br>and mineral<br>exploration<br>properties | 2012 Property<br>and equipment<br>and mineral<br>exploration<br>properties |
|---------------|--|--|
| Canada        | \$ 1,945,834   | \$ 4,749,323   |
| United States | 133,772  | 133,898  |
|               | <u>\$ 2,109,606</u>  | <u>\$ 4,883,221</u>  |

## 15. LOSS PER SHARE

The basic loss per share amount is calculated by dividing the net loss for the year by the weighted average number of ordinary shares outstanding during the year. The effect of the conversion of options, warrants and other equity instruments would be anti-dilutive, making the basic and diluted loss per share equal.

### a) Weighted Average Number of Common Shares:

|  | August 31, 2013   | August 31, 2012   |
|--|-------------------|-------------------|
| Issued common shares at the beginning of the year            | 57,487,439        | 52,079,757        |
| Effect of shares issued                                      | 3,699             | 2,211,767         |
| Effect of share warrants exercised                           | -                 | 692,536           |
| Weighted average number of common shares (basic and diluted) | <u>57,491,138</u> | <u>54,984,060</u> |

### b) Loss per Share

|  | August 31, 2013   | August 31, 2012   |
|--|-------------------|-------------------|
| Net and comprehensive loss                                   | \$ (3,251,660)    | \$ (593,348)      |
| Weighted average number of common shares (basic and diluted) | 57,491,138        | 54,984,060        |
| Basic and diluted loss per share                             | <u>\$ (0.057)</u> | <u>\$ (0.011)</u> |

## 16. NON-CASH TRANSACTIONS

Significant non-cash transactions for the period consist of the issuance of common shares as consideration for acquisition of interests in mining properties as follows:

- St. Charles de Bourget deposit issuance of 450,000 (2012 - 346,154) common shares with an attributed value of \$45,000 (2012 - \$45,000) to acquire an additional 2% (2012 2%) equity interest in the property.
- Broker warrants - issued nil (2012 - 277,520) broker warrants with a fair value of \$nil (2012 - \$24,977) as commission on financings.
- No income taxes were paid or received during the current and prior year.

## 17. FINANCIAL INSTRUMENTS

Financial instruments consist of recorded amounts of cash and cash equivalents, and accounts receivable which will result in future cash receipts, as well as trade and other payables due to shareholders and directors, other liabilities, and promissory notes, which will result in future cash outlays.

The Company's activities expose it to a variety of risks in respect of certain of the financial instruments held. Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

## a) Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, commodity and equity prices.

### i) Commodity Risk

The Company is exposed to fluctuations in commodity prices and has no contracts in place to mitigate these exposures.

## b) Credit Risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to cash and cash equivalents and accounts receivable. Cash and cash equivalents are held with a reputable Canadian chartered bank, from which management believes the risk of loss to be minimal.

A significant portion of accounts receivable consists of sales tax receivable from government authorities in Canada. Management believes that the credit risk concentration with respect to financial instruments included in sales tax receivable is minimal.

There was no allowance for doubtful accounts recorded in 2013 (2012 - \$nil).

## c) Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when they come due. The Company currently does not have enough cash to cover the current accounts payable and due to shareholders and directors. The Company has historically renewed credit terms prior to maturity dates and raised funds through the issuance of debt, equity, or monetization of non-core assets. Subsequent to year end, the Company raised \$300,000 through private debt (Note 19). As the proceeds received are not sufficient to cover Company's current liabilities, the Company will continue to review additional sources of capital and replacement debt structures to continue its operations and discharge its commitments as they become due.

Besides the promissory notes, which mature on December 31, 2014, the Company has no financial instruments maturing beyond one year.

## d) Fair Value Risk

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The consolidated statement of financial position carrying amounts for cash and cash equivalents, accounts receivable, trade and other payables, due to shareholders and directors, and other liabilities approximate its fair value due to the immediate or short term maturity of these instruments. Due to the use of subjective judgments and uncertainties in the determination of fair values, these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

### Fair value hierarchy:

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

- Level 1 fair value measurements are those derived from quoted prices (unadjusted) in active markets for identical assets or liabilities; and
- Level 2 fair value measurements are those derived from inputs other than quoted prices included within level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

- Level 3 fair value measurements are those derived from valuation techniques that include inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value of the promissory notes derivatives is a level 3 measurement.

## 18. CAPITAL DISCLOSURE

The capital structure of the Company consists of equity attributable to common shareholders and includes share capital of \$12,746,936 (2012 - \$12,701,936), contributed surplus of \$1,363,173 (2012 - \$1,363,173), less an accumulated deficit of \$12,576,872 (2012 - \$9,325,215).

When managing capital, the Company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management team to sustain the future development of the business.

The properties in which the Company currently has interests in are in the exploration stage; as such, the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and development and pay for administrative costs, the Company will spend its existing working capital, raise additional funds as needed and look for profitable sale opportunities of their properties when available. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is appropriate.

There were no changes in the Company's approach to capital management during the year ended August 31, 2013. The Company is not subject to externally imposed capital requirements.

## 19. SUBSEQUENT EVENTS

Except as disclosed elsewhere in these consolidated financial statements, the Company has had the following events after the reporting date:

### a) Acquisition of Quebec Granite Property

The Company announced on November 5, 2013 that it has entered into an arm's length agreement to purchase a 100% interest in a granite claim located near Saint-Alexis-des-Monts, Quebec. The property is comprised of one claim covering approximately 88 acres and has operated as a quarry for a number of years.

The Company has, subject to regulatory approval, agreed to pay \$780,000 for the property payable \$150,000 in cash and \$100,000 to be paid in 1,000,000 treasury shares at a deemed price of \$0.10 at closing. In addition \$100,000 will be paid on each of the second, third, fourth and fifth anniversary dates of closing and \$30,000 will be paid on the sixth anniversary date. Micrex shall have the right to elect annually to pay part or all of each annual payment in treasury shares at the then current market price. In addition, the vendor will receive a production royalty of 20% of net sales to be paid quarterly until such time as a total of \$100,000 has been paid.

The \$150,000 cash portion of the purchase price was raised by way of private debt. The Company issued \$300,000 in 3 year notes which carry a 5% interest rate plus a 5% sales royalty on sales from the granite quarry until repaid, and then a 2% royalty until the Company repurchases the royalty for a total of \$300,000. The balance of the funds raised will be used for working capital.