# Big North Graphite Corp.

## CONSOLIDATED FINANCIAL STATEMENTS

**For the years ended October 31, 2014 and 2013**

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

## INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Big North Graphite Corp.:

We have audited the accompanying consolidated financial statements of Big North Graphite Corp., which comprise the consolidated statements of financial position as at October 31, 2014 and 2013, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years then ended, 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 Big North Graphite Corp. as at October 31, 2014 and 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

### Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
February 27, 2015

**Expressed in Canadian Dollars**

| | Notes | October 31, 2014 | October 31, 2013 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | 5 | $ 34,790 | $ 29,263 |
| Amounts receivable and prepayments | 6, 13 | 73,589 | 128,880 |
| | | 108,379 | 158,143 |
| **Non-current assets** | | | |
| Equipment | 7 | 218,756 | 122,315 |
| Deferred acquisition costs | 8 | 1,215,650 | 1,107,861 |
| | | 1,434,406 | 1,230,176 |
| **TOTAL ASSETS** | | **$ 1,542,785** | **$ 1,388,319** |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | 9 | $ 245,336 | $ 146,582 |
| Due to related parties | 13 | 153,984 | 12,600 |
| | | 399,320 | 159,182 |
| **EQUITY** | | | |
| Share capital | 11 | 5,549,589 | 4,117,425 |
| Shares to be issued | 11 | 64,048 | 12,788 |
| Share-based payment reserve | 12 | 437,512 | 343,938 |
| Foreign translation reserve | | 10,603 | 25,240 |
| Deficit | | (4,918,287) | (3,270,254) |
| **TOTAL EQUITY** | | 1,143,465 | 1,229,137 |
| **TOTAL LIABILITIES AND EQUITY** | | **$ 1,542,785** | **$ 1,388,319** |

Commitments (Note 8)
Subsequent events (Note 19)

Approved on behalf of the Board of Directors:

| | |
|---|---|
| *"Spiro Kletas"* | *"Erik Ostensoe"* |
| Director | Director |



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

**Expressed in Canadian Dollars**

| | Notes | Years ended October 31, 2014 | Years ended October 31, 2013 |
|---|---|---|---|
| **Revenue** | | $ 90,605 | $ 75,243 |
| Cost of goods sold | | (141,624) | (108,778) |
| **Gross loss** | | (51,019) | (33,535) |
| **Operating expenses** | | | |
| Accretion of convertible notes | 10 | 10,870 | - |
| Amortization | 7 | 20,649 | 6,499 |
| Consulting fees | 13 | 315,638 | 180,309 |
| Interest expense | 10 | 16,740 | - |
| Professional fees | 13 | 168,763 | 102,540 |
| Office expense | 13 | 30,880 | 68,808 |
| Exploration and evaluation expenses | 17 | 364,368 | 419,607 |
| Filing, listing and transfer agent fees | | 45,105 | 48,176 |
| Insurance | | 7,938 | 3,885 |
| Management fees | 13 | 18,000 | 7,650 |
| Salaries | 13 | 166,185 | 154,968 |
| Shareholder communication and promotion | | 88,923 | 119,924 |
| Share based payments | 12,13 | 90,169 | 91,217 |
| Travel | | 40,721 | 82,767 |
| | | 1,384,949 | 1,286,350 |
| **Other items** | | | |
| Impairment of deferred acquisition costs | 8 | (310,395) | (64,600) |
| Foreign exchange gain | | 4,337 | 580 |
| Gain on disposal of equipment | | 6,388 | - |
| Mining incentive tax credit | | 87,605 | - |
| Other income | | - | 1,488 |
| | | (212,065) | (62,532) |
| **Net loss** | | **$ (1,648,033)** | **$(1,382,417)** |
| **Other comprehensive income** | | | |
| Other comprehensive income that may be reclassified to profit or loss: | | | |
| Exchange differences on translating foreign operations | | (14,637) | 25,240 |
| **Total comprehensive loss** | | **$ (1,662,670)** | **$(1,357,177)** |
| **Loss per share – basic and diluted** | | **$ (0.02)** | **$ (0.03)** |
| **Weighted average number of shares outstanding – basic and diluted** | | **67,926,580** | **40,785,811** |

**Expressed in Canadian Dollars**

| | | Share capital | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| | Note | Number of shares | Amount | Shares to be issued | Share-based payment reserve | Foreign currency translation reserve | Convertible note reserve | Deficit | Total |
| **Balance at October 31, 2012** | | 22,978,402 | $2,228,771 | $ 12,788 | $ 220,996 | $ - | $ - | $ (1,887,837) | $ 574,718 |
| Net loss for the year | | - | - | - | - | - | - | (1,382,417) | (1,382,417) |
| Other comprehensive income | | - | - | - | - | 25,240 | - | - | 25,240 |
| Total comprehensive loss | | - | - | - | - | 25,240 | - | (1,382,417) | (1,357,177) |
| Share capital issued | 11 | 26,768,712 | 1,621,810 | - | - | - | - | - | 1,621,810 |
| Share issued for debt | 11 | 1,092,307 | 71,000 | - | - | - | - | - | 71,000 |
| Share issue costs | 11 | - | (88,656) | - | 31,725 | - | - | - | (56,931) |
| Property acquisition | 8,11 | 3,700,000 | 234,500 | - | - | - | - | - | 234,500 |
| Received for warrants exercised | 11 | 500,000 | 50,000 | - | - | - | - | - | 50,000 |
| Stock options issued | 12 | - | - | - | 91,217 | - | - | - | 91,217 |
| **Balance at October 31, 2013** | | 55,039,421 | 4,117,425 | 12,788 | 343,938 | 25,240 | - | (3,270,254) | 1,229,137 |
| Net loss for the year | | - | - | - | - | - | - | (1,648,033) | (1,648,033) |
| Other comprehensive loss | | - | - | - | - | (14,637) | - | - | (14,637) |
| Total comprehensive loss | | - | - | - | - | (14,637) | - | (1,648,033) | (1,662,670) |
| Share capital issued | 11 | 13,333,333 | 800,000 | - | - | - | - | - | 800,000 |
| Share issue costs | 11 | - | (12,446) | - | 3,405 | - | - | - | (9,041) |
| Property acquisition | 8,11 | 6,265,210 | 318,260 | - | - | - | - | - | 318,260 |
| Issuance of convertible notes | 10 | - | - | - | - | - | 10,870 | - | 10,870 |
| Conversion of convertible notes | 10,11 | 4,309,588 | 226,350 | 51,260 | - | - | (10,870) | - | 266,740 |
| Received for warrants exercised | 11 | 2,000,000 | 100,000 | - | - | - | - | - | 100,000 |
| Stock options issued | 12 | - | - | - | 90,169 | - | - | - | 90,169 |
| **Balance at October 31, 2014** | | 80,947,552 | $ 5,549,589 | $ 64,048 | $ 437,512 | $ 10,603 | $ - | $ (4,918,287) | $ 1,143,465 |



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

**Expressed in Canadian Dollars**

| | Year ended October 31, 2014 | Year ended October 31, 2013 |
|---|---|---|
| **Operating activities** | | |
| Loss for the year | $ (1,648,033) | $ (1,382,417) |
| Adjustments for: | | |
| Amortization | 20,649 | 6,499 |
| Share-based payments | 90,169 | 91,217 |
| Impairment of deferred acquisition costs | 310,395 | 64,600 |
| Accretion of convertible notes | 10,870 | - |
| Accrued interest on convertible notes | 16,740 | - |
| Gain on disposal of equipment | (6,388) | - |
| Changes in non-cash working capital items: | | |
| Amounts receivable and prepayments | 65,864 | (100,001) |
| Accounts payable and accrued liabilities | 139,690 | (106,529) |
| Due to related parties | 100,448 | 12,009 |
| **Net cash flows used in operating activities** | (899,596) | (1,414,622) |
| **Investing activities** | | |
| Expenditures on equipment | (121,047) | (127,404) |
| Deferred acquisition costs | (99,924) | (202,015) |
| **Net cash flows used in investing activities** | (220,971) | (329,419) |
| **Financing activities** | | |
| Shares issued for cash, net of shares issue costs | 890,959 | 1,614,879 |
| Issuance of convertible debentures | 250,000 | - |
| **Net cash flows from financing activities** | 1,140,959 | 1,614,879 |
| Increase (decrease) in cash and cash equivalents | 20,392 | (129,162) |
| Effect of exchange rates on cash holdings in foreign currencies | (14,865) | 19,782 |
| Cash and cash equivalents, beginning | 29,263 | 138,643 |
| **Cash and cash equivalents, ending** | **$ 34,790** | **$ 29,263** |
| **Supplemental cash flow information** | | |
| Shares issued for properties | $ 318,260 | $ 234,500 |



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

## 1. CORPORATE INFORMATION

Big North Graphite Corp. (the "Company") is an exploration stage company incorporated under the laws of British Columbia and its principal business activities include the exploration and development of mineral properties in Canada and Mexico. The Company's shares are listed on the TSX Venture Exchange ("TSXV") under the symbol "NRT". The Company's head office is located at 350-885 Dunsmuir Street Vancouver, British Columbia, Canada.

These consolidated financial statements have been prepared on the assumption that the Company and its subsidiaries will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. As at October 31, 2014 the Company had not advanced its properties to commercial production and is not able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These factors indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with loans from directors and companies controlled by directors and or private placement of common shares. Should the Company be unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its consolidated statement of financial position.

## 2. BASIS OF PREPARATION

a) Basis of consolidation

The consolidated financial statements include the accounts of the Company and its controlled entities. Details of controlled entities are as follows:

| | Country of incorporation | Percentage owned* | |
|---|---|---|---|
| | | **October 31, 2014** | **October 31, 2013** |
| Grafito La Barranca de Mexico S.A. de C.V. | Mexico | 100% | 100% |
| Grafitera La Colorada de Mexico, S.A. de C.V. | Mexico | 50% | 50% |
| Grafito de Mexico, S.A. de C.V. | Mexico | 97.5% | N/A |

*Percentage of voting power is in proportion to ownership.

Inter-company balances and transactions, including unrealized income and expenses arising from inter-company transactions, are eliminated on consolidation.

b) Statement of compliance

The consolidated financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

The financial statements were authorized for issue by the Board of Directors on February 27, 2015.

c) Basis of measurement

The consolidated financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The consolidated financial statements are presented in Canadian dollars unless otherwise noted.

The preparation of 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 financial statements are disclosed in Note 4.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been adopted for the year ended October 31, 2014 and have been applied consistently to all periods presented in these financial statements.

**a) Cash and cash equivalents**

Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

**b) 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**

Exploration expenditures are the costs incurred in the initial search for mineral deposits with economic potential or in the process of obtaining more information about existing mineral deposits. Exploration expenditures typically include costs associated with prospecting, sampling, mapping, drilling and other work involved in searching for minerals.

Evaluation expenditures are the costs incurred to establish the technical and commercial viability of developing mineral deposits identified through exploration activities or by acquisition. Evaluation expenditures include the cost of:

(i) establishing the volume and grade of deposits through drilling of core samples, trenching and sampling activities in an ore body that is classified as either a mineral resource or a proven and probable reserve;
(ii) determining the optimal methods of extraction and metallurgical and treatment processes;
(iii) studies related to surveying, transportation, and infrastructure requirements;
(iv) permitting activities; and
(v) economic evaluations to determine whether development of the mineralized material is commercially justified, including scoping, prefeasibility and final feasibility studies.

In evaluating, if expenditures meet the criteria to be capitalized, several different sources of information are utilized. The information that is used to determine the probability of future benefits depends on the extent of exploration and evaluation that has been performed.

Exploration and evaluation expenditure incurred on a license where a National Instrument 43-101 compliant resource has not yet been established is expensed as incurred until sufficient evaluation has occurred in order to establish a National Instrument 43-101 compliant resource. Costs expensed during this phase are included in “exploration and evaluation expenditure” in the statement of comprehensive loss.

Upon the establishment of a National Instrument 43-101 compliant resource (at which point, the Company considers it probable that economic benefits will be realized), the Company capitalizes any further evaluation expenditure incurred for the particular license as exploration and evaluation assets up to the point when a National Instrument 43-101 compliant reserve is established.

Exploration and evaluation assets acquired in a business combination are initially recognized at fair value.

The costs associated with acquiring an exploration and evaluation asset (that does not represent a business) are also capitalized. They are subsequently measured at cost less accumulated impairment.

Once 43-101 compliant reserves are established and development is sanctioned, exploration and evaluation assets are tested for impairment and transferred to “Deferred Development Costs”. No amortization is charged during the exploration and evaluation phase.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**c) Equipment**

Equipment is stated at historical cost less accumulated depreciation and accumulated impairment losses.

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. Repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Gains and losses on disposals are determined by comparing the proceeds with the carrying amount and are recognized in the statement of comprehensive loss.

Amortization is calculated on a straight-line method to write off the cost of the assets to their residual values over their estimated useful lives. The amortization rates applicable to each category of property, plant and equipment are as follows:

| Class of property, plant and equipment | Amortization rate |
|---|---|
| Computer equipment | 25% |
| Processing and exploration equipment | 10% |

**d) Impairment of non-financial assets**

The carrying amount of the Company's non-financial assets (which include equipment and deferred acquisition costs) is reviewed annually at the financial year-end to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

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

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount  Any reversal of impairment cannot increase the carrying value of the asset to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

**e) Revenue recognition**

Revenue from graphite sales is recognized as revenue only when there is evidence of a sale arrangement, amounts are determinable, collection is reasonably assured and the Company no longer retains control over the goods sold.

**f) Financial instruments**

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

**Fair value through profit or loss**

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**f) Financial instruments (cont'd)**

**Loans and receivables**

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.

**Held-to-maturity investments**

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

**Available-for-sale investments**

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments. Available-for-sale investments are carried at fair value with changes in fair value recognized in accumulated other comprehensive loss. Where there is a significant or prolonged decline in the fair value of an available-for-sale financial asset (which constitutes objective evidence of impairment), the full amount of the impairment, including any amount previously recognized in other comprehensive loss, is recognized in profit or loss. If there is no quoted market price in an active market and fair value cannot be readily determined, available-for-sale investments are carried at cost.

Purchases and sales of available-for-sale financial assets are recognized on a trade date basis. On sale or impairment, the cumulative amount recognized in other comprehensive loss is reclassified from accumulated other comprehensive loss to profit or loss.

**Impairment of 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 are classified as other financial liabilities, based on the purpose for which the liability was incurred. 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 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.

The Company does not have any derivative financial assets and liabilities.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

### g) 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.

**Other provisions**

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

### h) Income taxes

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.

### i) Foreign currency translation

The functional currency of each entity is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is the parent company's functional and presentation currency. The functional currency of the subsidiaries that have operations in Mexico is the Mexican Peso.

<u>Transactions and balances:</u>

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items measured at fair value are reported at the exchange rate at the date when fair values were determined.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**i) Foreign currency translation (cont'd)**

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of comprehensive loss in the period in which they arise, except where deferred in equity as a qualifying cash flow or net investment hedge.

Exchange differences arising on the translation of non-monetary items are recognized in other comprehensive income in to the extent that gains and losses arising on those non-monetary items are also recognized in other comprehensive income. Where the non-monetary gain or loss is recognized in profit or loss, the exchange component is also recognized in profit or loss.

Foreign operations:

The financial results and position of foreign operations whose functional currency is different from the Company's presentation currency are translated as follows:

- assets and liabilities are translated at period-end exchange rates prevailing at that reporting date; and
- income and expenses are translated at average exchange rates for the period.

Exchange differences arising on translation of foreign operations are recognized in other comprehensive income and recorded in the Company's foreign currency translation reserve in equity. These differences are recognized in the profit or loss in the period in which the operation is disposed.

**j) Loss per share**

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

Diluted loss per share is calculated by the treasury stock method. Under the treasury stock method, the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

Diluted loss per share would not differ from basic loss per share as the effect of the exercise of options and warrants would be anti-dilutive.

**k) 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 to the statement of comprehensive loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss over the remaining vesting period.

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 loss, 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.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Cont'd)

**l) Share-based payments (cont'd)**

All equity-settled share-based payments are reflected in share based payment reserve, 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.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

**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 after November 1, 2014 or later periods. The following new standards, amendments and interpretations, that have not been early adopted in these financial statements, will or may have an effect on the Company's future results and financial position:

- IFRS 9 Financial Instruments. This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 introduces new requirements for the classification and measurement of financial assets, additional changes relating to financial liabilities, a new general hedge accounting standard which will align hedge accounting more closely with risk management. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2018 with early adoption permitted.
- IFRIC 21 Levies. This is an interpretation of IAS 37 "Provisions, contingent liabilities and contingent assets". The interpretation clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. IFRIC 21 is effective for annual periods beginning on or after January 1, 2014.
- Amendments to IAS 32 Financial Instruments: Presentation. These amendments address inconsistencies when applying the offsetting requirements, and is effective for annual periods beginning on or after January 1, 2014.

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The Company 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.

**Estimates**

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the useful lives of equipment, the recoverability of the carrying value of deferred acquisition costs, fair value measurements for financial instruments, the recoverability and measurement of deferred tax assets, provisions for restoration and environmental obligations and contingent liabilities.

Expressed in Canadian Dollars

## 4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS (Cont'd)

**Judgments**

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- The assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- The determination of whether an acquisition constitutes a business combination or an acquisition of assets;
- the classification / allocation of expenditures as deferred acquisition costs or operating expenses; and
- the determination of the functional currency of the parent company and its subsidiaries.

## 5. CASH AND CASH EQUIVALENTS

| | October 31, 2014 | October 31, 2013 |
|---|---|---|
| Cash at bank | $ 34,790 | $ 17,763 |
| Canadian Guaranteed Investment Certificate | - | 11,500 |
| | $ 34,790 | $ 29,263 |

## 6. AMOUNTS RECEIVABLE AND PREPAYMENTS

| | October 31, 2014 | October 31, 2013 |
|---|---|---|
| Trade receivable | $ - | $ 8,724 |
| Other receivables | 10,573 | 4,520 |
| GST receivable | 4,206 | 5,010 |
| Prepayments | 58,810 | 110,626 |
| | $ 73,589 | $ 128,880 |

## 7. EQUIPMENT

| | Computer equipment | Processing and exploration equipment | Total |
|---|---|---|---|
| **Cost:** | | | |
| November 1, 2012 | $ 1,410 | $ - | $ 1,410 |
| Additions | 426 | 126,978 | 127,404 |
| October 31, 2013 | 1,836 | 126,978 | 128,814 |
| Additions | 1,073 | 119,974 | 121,047 |
| Disposal | - | (4,517) | (4,517) |
| Foreign exchange | 23 | 204 | 227 |
| October 31, 2014 | $ 2,932 | $ 242,639 | $ 245,571 |
| **Amortization:** | | | |
| November 1, 2012 | $ - | $ - | $ - |
| Charge for the year | 379 | 6,120 | 6,499 |
| October 31, 2013 | 379 | 6,120 | 6,499 |
| Charge for the year | 351 | 20,298 | 20,469 |
| Disposal | | (333) | (333) |
| October 31, 2014 | $ 730 | $ 26,085 | $ 26,815 |
| **Net book value:** | | | |
| October 31, 2013 | $ 1,457 | $ 120,858 | $ 122,315 |
| October 31, 2014 | $ 2,202 | $ 216,554 | $ 218,756 |

Expressed in Canadian Dollars

# 8. DEFERRED ACQUISITION COSTS

| | October 31, 2012 | Acquisitions (Write-Offs) | October 31, 2013 | Acquisitions (Write-offs) | Write-offs | October 31, 2014 |
|---|---|---|---|---|---|---|
| Luciana | $ 64,600 | $ (64,600) | $ - | $ - | $ - | $ - |
| Grand Lac du Nord | 360,000 | 47,500 | 407,500 | - | - | 407,500 |
| Griffith and Brougham | 280,888 | 22,500 | 303,388 | 30,000 | (310,395) | 22,993 |
| Nuevo San Pedro | 12,500 | 185,987 | 198,487 | - | - | 198,487 |
| Aki Wiki | 12,500 | 185,986 | 198,486 | - | - | 198,486 |
| El Tejon | - | - | - | 388,184 | - | 388,184 |
| | $ 730,488 | $ 377,373 | $ 1,107,861 | $ 418,184 | $ (310,395) | $ 1,215,650 |

**a. Luciana Prospect**

The Company entered into an option to acquire a 70% interest in the Luciana Prospect gold property located in Quebec from Golden Valley Mines Ltd ("Golden Valley").

As consideration for the acquisition of its interest in the Luciana property, the Company agreed to make cash payments totaling $10,000(paid), issue 396,000 (issued) common shares in the capital of the Company with a fair value of $39,600 and incur expenditures on the Luciana property totaling $2,000,000 over three years. Upon the Company exercising the option, Golden Valley will retain a 30% free carried interest to commercial production.

Pursuant to a finder's fee agreement, the Company has issued a total of 150,000 common shares to an arm's length party to the Company, as a finder's fee in connection with the Qualifying Transaction. The fair value of the common shares was $15,000.

On May 24, 2013, the Company terminated its option on the Luciana project and wrote off all deferred acquisition costs.

**b. Grand Lac du Nord Graphite Property**

On April 10, 2012, the Company signed an option agreement with Zimtu Capital Corp. ("Zimtu") and three of Zimtu's prospecting partners (collectively, the "Optionors") to earn a 100% interest in the Grand Lac du Nord Graphite property located in Quebec. Pursuant to the terms of the option agreement, the Company may acquire a 100% interest in the Grand Lac du Nord Graphite property by:

(i) Pay $40,000 of cash upon signing the letter of intent (paid);
(ii) Pay $40,000 of cash upon TSXV acceptance of the option agreement ("Effective Date") (paid);
(iii) Issue 1,500,000 common shares within five days of the Effective Date (issued with a fair value of $252,500);
(iv) Issue 500,000 common shares within six months after the Effective Date (issued with a fair value of $27,500);
(v) Issue 500,000 common shares within twelve months after the Effective Date (issued with a fair value of $25,000)(Note 11);
(vi) Issue 500,000 common shares within fourteen months after the Effective Date (issued with a fair value of $22,500) (Note 11);
(vii) Incur $150,000 of exploration expenditures within thirty months of the Effective Date (incurred).

In addition, if, at any time within seven years of the Effective Date, the Company files a NI 43-101 compliant resource with 200,000 tonnes or more of graphite content, the Company will pay to the Optionors additional cash consideration of $200,000 and will issue 2,000,000 common shares to the Optionors. The Optionors will retain a 2% Net Milling Royalty on the Grand Lac du Nord Graphite property, 1% of which can be purchased by the Company for $1,000,000 at any time.

On October 28, 2014, the Company signed an second amending agreement with Zimtu and the Optionors, which reduced the required exploration expenditures from $500,000 to $150,000 within 30 months of the Effective Date. All parties acknowledged that the Company has fulfilled all of the terms of the option agreement and has earned the 100% interest in the property (Note 19).

## 8. DEFERRED ACQUISITION COSTS (Cont'd)

**c. Griffith and Brougham**

On April 17, 2012, the Company signed an option agreement with Zimtu and two of Zimtu's prospecting partners (collectively, the "Optionors") to earn a 100% interest in the Griffith and Brougham properties located in Ontario. Pursuant to the terms of the option agreement, the Company may acquire a 100% interest in the Griffith and Brougham properties by:

(i) Pay $40,000 of cash upon signing the letter of intent (paid);
(ii) Pay $40,000 of cash upon TSXV acceptance of the option agreement ("Effective Date") (paid);
(iii) Issue 1,000,000 common shares within five days of the Effective Date (issued with a fair value of $160,100);
(iv) Issue 500,000 common shares within fourteen months after the Effective Date (issued with a fair value of $22,500)(Note 11); and
(v) Issue 500,000 common shares within twenty-four months after the Effective Date (issued with a fair value of $30,000) (Note 11);

The Optionors will retain a 2% Net Milling Royalty on the Property, 1% of which can be purchased by the Company for $1,000,000 at any time.

In connection with the option agreement, the Company agreed to issue 217,500 common shares as finder's fees. During the year ended October 31, 2012, the Company issued 140,000 common shares with a fair value of $28,000. The remaining 77,500 common shares with a fair value of $12,788 are to be issued 14 months after the Effective Date, and are recorded as shares to be issued.

During the year ended October 31, 2014, certain claims were allowed to lapse; therefore impairment of $310,395 was recognized representing the portion of claims expired.

**d. Nuevo San Pedro and Aki Wiki Properties**

On November 15, 2012, the Company acquired 99.9% of the issued and outstanding shares of Grafito La Barranca S.A. de C.V. ("Barranca") from Can-Am Gold Corp (the "vendor") pursuant to a definitive agreement.

Barranca is the owner of two mining concessions located in Mexico. Barranca holds a 100% interest in the Aki Wiki concession ("Aki Wiki") and has a 50% interest in the Nuevo San Pedro property ("Nuevo San Pedro").

The terms of the definitive agreement are as follows:

(i) US$25,000 upon signing the letter of intent as a non-refundable deposit (paid);
(ii) US$25,000 upon signing Definitive Agreement (paid);
(iii) US$150,000 and 1,200,000 shares of the Company on TSXV approval of the Definitive Agreement ("Effective Date") (paid and issued with a fair value of $102,000);
(iv) 500,000 shares of the Company on or before the 6 month anniversary of the Effective Date (issued with a fair value of $25,000); and
(v) 500,000 shares of the Company on or before the 12 month anniversary of the Effective Date (issued with a fair value of $37,500).

The acquisition was accounted for as an asset acquisition. The Company incurred $26,955 in finders and legal fees in connection with the acquisition.

The acquisition costs were allocated evenly between the Nuevo San Pedro and Aki Wiki properties.

Expressed in Canadian Dollars

# 8. DEFERRED ACQUISITION COSTS (Cont'd)

**e. El Tejon Property**

On February 5, 2014, the Company entered into a Share Purchase Agreement (the "Agreement") to acquire 97.5% of the issued and outstanding shares of Grafito de Mexico, S.A. de C.V. ("Grafito de Mexico"), from MAG Exploration Services Inc. and Cesar Javier Guajardo Villarreal (together, the "Vendors"). Grafito de Mexico is the owner of the El Tejon Property. The transaction is a related party transaction because Cesar Javier Guajardo Villarreal is a director of the Company (Note 13).

Pursuant to the terms of the Agreement, the Company has an option to acquire a 100% interest in Grafito de Mexico held by the Vendors by paying US$1,700,000 and issuing 12,500,000 common shares to the Vendors.

On July 25, 2014 and February 10, 2015, the payment arrangement was amended as follows:

(i) Pay US$30,000 upon signing the letter of intent as a non-refundable deposit (paid);
(ii) Pay US$30,000 within 5 business days of signing the Agreement (paid);
(iii) Pay US$30,000 upon the 6 month anniversary of signing the Agreement (paid);
(iv) Pay US$40,000 on or before February 12, 2015 (paid);
(v) Pay US$120,000 on or before March 10, 2015;
(vi) Pay US$100,000 upon the 18 month anniversary of signing the Agreement;
(vii) Pay US$125,000 upon the 24 month anniversary of signing the Agreement;
(viii) Pay US$125,000 upon the 30 month anniversary of signing the Agreement;
(ix) Pay US$150,000 upon the 36 month anniversary of signing the Agreement;
(x) Pay US$150,000 upon the 42 month anniversary of signing the Agreement;
(xi) Pay US$400,000 upon the 48 month anniversary of signing the Agreement;
(xii) Pay US$400,000 upon the 60 month anniversary of signing the Agreement;
(xiii) Issue 5,000,000 common shares within 5 business days of TSXV approval of the Agreement (the "Effective Date")(issued with a fair value of $250,000)(Note 11); and
(xiv) Issue 7,500,000 common shares on or before March 10, 2015.

In addition, the Vendors will retain a 3% net profits interest royalty with respect to the El Tejon Property.

The Company will pay a finder's fee of 3,089,970 common shares to MJI Management Corp. in connection with the transaction. The finder's fee is to be paid as follows:

(i) 765,210 common shares within 10 business days of TSXV approval of the Grafito de Mexico transaction (issued with a fair value of $38,260 (Note 11);
(ii) 722,640 common shares within 10 business days of the 12 month anniversary of TSXV approval;
(iii) 160,140 common shares within 10 business days of the 18 month anniversary of TSXV approval;
(iv) 134,170 common shares within 10 business days of the 24 month anniversary of TSXV approval;
(v) 133,450 common shares within 10 business days of the 30 month anniversary of TSXV approval;
(vi) 160,140 common shares within 10 business days of the 36 month anniversary of TSXV approval;
(vii) 160,140 common shares within 10 business days of the 42 month anniversary of TSXV approval;
(viii) 427,040 common shares within 10 business days of the 48 month anniversary of TSXV approval; and
(ix) 427,040 common shares within 10 business days of the 60 month anniversary of TSXV approval.

# 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | October 31, 2014 | October 31, 2013 |
|---|---|---|
| Accounts payable | $ 199,625 | $ 121,718 |
| Accrued liabilities | 45,711 | 22,648 |
| VAT payable | - | 2,216 |
| | $ 245,336 | $ 146,582 |

**Expressed in Canadian Dollars**

## 10. CONVERTIBLE NOTES

On January 9, 2014, the Company issued $250,000 of unsecured convertible notes. These notes mature January 9, 2015 and are convertible, at the holders option, at a price of $0.05 per unit into units of the Company. These notes bear interest at the rate of 10% per annum, calculated and paid semi-annually. Each unit consists of one common share and one common share purchase warrant exercisable at $0.05 until January 9, 2015.

| | | **October 31, 2014** |
|---|---|---|
| Convertible note, beginning | $ | - |
| Issued | | 239,130 |
| Interest | | 16,740 |
| Accretion | | 10,870 |
| Converted to units and common shares | | (266,740) |
| Convertible note, ending | $ | - |

During the year ended October 31, 2014, the Company issued 4,000,000 units upon conversion of $200,000 of convertible note principal and 309,588 common shares upon conversion of $15,480 of accrued interest.

Subsequent to October 31, 2014, the Company issued 1,000,000 units upon conversion of the remaining $50,000 of convertible note principal and 25,205 common shares upon conversion of $1,260 of accrued interest (Note 19). The effective date of this conversion was October 31, 2014; therefore $51,260 has been included as shares to be issued (Note 11).

As of October 31, 2014, all convertible notes have been converted to units and common shares and there is no balance outstanding.

## 11. SHARE CAPITAL AND RESERVES

### a) Common shares

Authorized: Unlimited common shares without par value.

Issued: At October 31, 2014, there were 80,947,552 issued and fully paid common shares (2013 – 55,039,421).

During the year ended October 31, 2014

- On February 24, 2014, the Company completed a non-brokered private placement by issuing 5,058,332 units at a price of $0.06 per unit, for gross proceeds of $303,500. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of $0.075 for a period of 24 months. The Company paid $8,201 as finder's fees and issued 70,000 finders' warrants with a fair value of $2,696. Each finder's warrant is exercisable into one common share at $0.075 for two years.

- On March 14, 2014, the Company completed a further non-brokered private placement by issuing 8,275,001 units at a price of $0.06 per unit, for gross proceeds of $496,500. Each unit consists of one common share and one common share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of $0.075 for a period of 24 months. The Company paid $840 as finder's fees and issued 14,000 finder's warrants with a fair value of $709. Each finder's warrant is exercisable into one common share at $0.075 for two years.

- On May 21, 2014, the Company issued 1,500,000 shares to Cesar Javier Guajardo Villareal and 3,500,000 shares to MAG Exploration Services Inc. with a total fair value of $250,000 related to the acquisition of the El Tejon property. The Company also issued 765,210 finder's shares with a fair value of $38,260 related to this acquisition (Note 8).

- The Company issued 500,000 common shares with a fair value of $30,000 in connection with the Griffith and Brougham option agreement (Note 8).

- The Company issued 4,000,000 units upon conversion of $200,000 convertible note principle and issued 309,588 common shares upon conversion of $15,480 of convertible note accrued interest. Each unit consists of one common share and one share purchase warrant exercisable at a price of $0.05 until January 9, 2015. On October 31, 2014, the remaining $51,260 of convertible note principle and interest was effectively converted; however the 1,025,205 shares were not issued until after year end; therefore $51,260 is included in shares to be issued. The 1,000,000 warrants were effectively issued upon conversion on October 31, 2014 (Notes 10 and 19).

**Expressed in Canadian Dollars**

## 11. SHARE CAPITAL AND RESERVES (Cont'd)

- The Company issued 2,000,000 common shares upon exercise of 2,000,000 warrants at a price at $0.05 per share.

During the year ended October 31, 2013

- The Company completed a non-brokered private placement of 14,168,712 units at a price of $0.07 per unit for gross proceeds of $991,810. Each unit consists of one common share and one-half of one common share purchase warrant, with each whole warrant entitling the holder to acquire, for a period of two years, one common share at a price of $0.12 per common share. The Company paid a total of $50,981 as finder's fees and issued 738,320 finder's warrants with a fair value of $28,867. Each finder's warrant is exercisable into one common share at $0.12 for one year.

- The Company completed a further non-brokered private placement by issuing 12,600,000 units at $0.05 per unit for gross proceeds of $630,000. Each unit consists of one common share and one common share purchase warrant, exercisable for a period of two years at $0.10 per common share. In connection with the private placement, the Company paid $5,950 in cash commissions and issued 119,000 finder's warrants with a fair value of $2,858. Each finder's warrant is exercisable into one common share at $0.10 for two years.

- The Company issued 2,200,000 common shares with a fair value of $164,500 in connection with the purchase of Barranca (Note 8).

- The Company issued 1,000,000 common shares with a fair value of $47,500 in connection with the Grand Lac du Nord option agreement (Note 8).

- The Company issued 500,000 common shares with a fair value of $22,500 in connection with the Griffith and Brougham option agreement (Note 8).

- The Company issued 1,092,307 shares with a fair value of $71,000 to settle a debt of $71,000.

- The Company issued 500,000 common shares upon exercise of 500,000 warrants at $0.10 per share.

**b) Basic and diluted loss per share**

The calculation of basic and diluted loss per share for the year ended October 31, 2014 was based on the loss attributable to common shareholders of $1,648,033 (2013 - $1,382,417) and the weighted average number of common shares outstanding of 67,926,580 (2013 – 40,785,811). Diluted loss per share did not include the effect of 43,349,689 (2013 – 26,932,356) share purchase warrants and 4,610,000 (2013 – 3,210,000) stock options as the effect would be anti-dilutive.

**c) Share purchase warrants**

The changes in warrants outstanding during the years ended October 31, 2014 and 2013 are as follows:

| | Year ended October 31, 2014 | | Year ended October 31, 2013 | |
|---|---|---|---|---|
| | Number of warrants | Weighted average exercise price | Number of warrants | Weighted average exercise price |
| Warrants outstanding, beginning | 26,932,356 | $ 0.12 | 7,629,000 | $ 0.15 |
| Warrants issued | 18,417,333 | 0.07 | 20,541,676 | 0.11 |
| Warrants exercised | (2,000,000) | 0.05 | (500,000) | 0.10 |
| Warrants expired | - | - | (738,320) | 0.12 |
| Warrants outstanding, ending | 43,349,689 | $ 0.10 | 26,932,356 | $ 0.12 |

At October 31, 2014, the weighted average remaining life of warrants is 0.78 years.

During the year ended October 31, 2014, the Company extended 4,412,500 warrants from an expiry date of June 13, 2014 to June 13, 2015 and extended 3,216,500 warrants from an expiry date of August 15, 2014 to August 15, 2015.

**Expressed in Canadian Dollars**

## 11. SHARE CAPITAL AND RESERVES (Cont'd)

Details of warrants outstanding as at October 31, 2014 are as follows:

| Exercise price | Expiry date | Weighted average contractual life | Number of warrants outstanding |
|---:|---:|---:|---:|
| $0.120 | December 18, 2014 | 0.02 years | 7,084,356 |
| $0.050 | January 9, 2015 | 0.01 years | 3,000,000 |
| $0.150 | June 13, 2015 | 0.06 years | 4,412,500 |
| $0.100 | July 3, 2015 | 0.05 years | 3,219,000 |
| $0.100 | August 9, 2015 | 0.16 years | 9,000,000 |
| $0.150 | August 15, 2015 | 0.06 years | 3,216,500 |
| $0.075 | February 25, 2016 | 0.16 years | 5,128,332 |
| $0.075 | March 14, 2016 | 0.26 years | 8,289,001 |
| | | 0.78 years | 43,349,689 |

### d) Reserves

Share-based payment reserve is used to recognize the value of stock option grants and share warrants prior to exercise.

The foreign currency translation reserve records unrealized exchange differences arising on translation of foreign operations that have a functional currency other than the Company's reporting currency.

The convertible note reserve records the equity component of convertible notes with liability and equity components. On conversion, the amount recorded is transferred to share capital.

### e) Escrow shares

As of October 31, 2014, 301,500 (2013 – 904,500) common shares are held in escrow.

## 12. SHARE BASED PAYMENTS

Pursuant to the policies of the TSXV, the Company may grant incentive stock options to its officers, directors, employees and consultants. TSXV policies permit the Company's directors to grant incentive stock options for the purchase of shares of the Company to persons in consideration for services. Stock options must be non-transferable and the aggregate number of shares that may be reserved for issuance pursuant to stock options may not exceed 10% of the issued shares of the Company at the time of granting and may not exceed 5% to any individual (maximum of 2% to any consultant). The exercise price of stock options is determined by the board of directors of the Company at the time of grant and may not be less than the closing price of the Company's shares on the trading day immediately preceding the date on which the option is granted and publicly announced, less an applicable discount, and may not otherwise be less than $0.10 per share. Options have a maximum term of ten years and terminate according to the terms which may be imposed by the Board of Directors. Vesting periods of options are determined at the time of granting of the options at the discretion of the board of directors.

The changes in options for the years ended October 31, 2014 and 2013 are as follows:

| | Year ended October 31, 2014 | | Year ended October 31, 2013 | |
|---|---:|---:|---:|---:|
| | Number of options | Weighted average exercise price | Number of options | Weighted average exercise price |
| Options outstanding, beginning | 3,210,000 | $ 0.11 | 2,090,000 | $ 0.13 |
| Options granted | 1,600,000 | 0.10 | 1,625,000 | 0.10 |
| Options expired | (200,000) | 0.10 | - | - |
| Options forfeited | - | - | (505,000) | 0.12 |
| Options outstanding, ending | 4,610,000 | $ 0.11 | 3,210,000 | $ 0.11 |
| Options exercisable, ending | 4,610,000 | $ 0.11 | 3,172,500 | $ 0.11 |

At October 31, 2014, the weighted average remaining life of options is 3.47 years.

**Expressed in Canadian Dollars**

## 12. SHARE BASED PAYMENTS (Cont'd)

Details of options outstanding as at October 31, 2014 are as follows:

| Exercise price | Expiry date | Weighted average contractual life | Number of options outstanding |
|---|---|---|---|
| $0.10 | December 13, 2016 | 0.40 years | 880,000 |
| $0.22 | March 20, 2017 | 0.18 years | 350,000 |
| $0.10 | June 18, 2017 | 0.23 years | 405,000 |
| $0.10 | January 9, 2018 | 0.23 years | 325,000 |
| $0.10 | October 8, 2018 | 0.90 years | 1,050,000 |
| $0.10 | March 31, 2019 | 1.53 years | 1,600,000 |
| | | 3.47 years | 4,610,000 |

<u>During the year ended October 31, 2014:</u>

The Company granted 1,600,000 stock options to directors, officers, employees and consultants of the Company pursuant to the Company's approved stock option plan. The options are exercisable at a price of $0.10 per share and have a term of five years from the date of grant. The options vested immediately. Share-based payment expense recognized during the year ended October 31, 2014 was $90,169.

<u>During the year ended October 31, 2013:</u>

The Company granted 50,000 stock options to an investor relations consultant, exercisable at $0.10 per share until November 28, 2013. The fair value of the 50,000 options was estimated to be $1,400. The options vest 25% every three months over a 12 month period. Share-based payment expense recognized during the year ended October 31, 2013 was $1,400.

The Company granted 375,000 stock options to directors, officers, and consultants, exercisable at $0.10 per share until January 9, 2018. The options vested immediately. Share-based payment expense recognized during the year ended October 31, 2013 was $25,586.

The Company granted 150,000 stock options to an investor relations consultant, exercisable at $0.10 per share until March 1, 2014. The fair value of the 150,000 options was estimated to be $5,475. The options vest 25% every three months over a 12 month period. Share-based payment expense recognized during the year ended October 31, 2013 was $5,475.

The Company granted 1,050,000 stock options to directors, officers, and consultants, exercisable at $0.10 per share until October 8, 2018. The options vested immediately. Share-based payment expense recognized during the year ended October 31, 2013 was $58,756.

Total share-based payment expense for the year ended October 31, 2013 was $91,217.

The fair values were determined using the Black-Scholes Option Pricing Model using the following weighted average assumptions:

| | Year ended October 31, 2014 | Year ended October 31, 2013 |
|---|---|---|
| Expected life of options | 5 years | 1 - 5 years |
| Annualized volatility | 123% | 118% - 138% |
| Risk-free interest rate | 1.71% | 0.95% - 1.91% |
| Dividend rate | 0% | 0% |

Expressed in Canadian Dollars

## 13. RELATED PARTY TRANSACTIONS

a) Related party balances

| | Year ended October 31, 2014 | Year ended October 31, 2013 |
|---|---|---|
| Payable to a company controlled by an officer of the Company | $ 56,686 | $ 12,600 |
| Payable to directors and officers of the Company | 97,298 | - |
| | $ 153,984 | $ 12,600 |

These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

b) Summary of related party transactions

| | Year ended October 31, 2014 | Year ended October 31, 2013 |
|---|---|---|
| Administration fees and office rent to a company controlled by a director of the Company | $ - | $ 21,664 |
| Professional fees to a company controlled by an officer of the Company | 17,925 | 10,500 |
| Salaries to directors of the Company | 137,764 | 136,025 |
| Management fees to a company controlled by an officer of the Company | 18,000 | 7,650 |
| Consulting fees to directors of the Company | 156,623 | - |
| Total included in comprehensive loss | 330,312 | 175,839 |
| Deferred acquisition costs paid to a director of the Company (Note 8) | 108,538 | - |
| Equipment purchases from a company controlled by a director of the Company | 108,101 | - |
| | $ 545,951 | $ 175,839 |

The Company paid $33,538 cash and issued 1,500,000 shares with a fair value of $75,000 to a director pursuant to the El Tejon agreement (Note 8).

c) Key management compensation

| | Year ended October 31, 2014 | Year ended October 31, 2013 |
|---|---|---|
| Consulting | $ 10,000 | $ 18,489 |
| Salaries | 137,764 | 136,025 |
| Management fees | 18,000 | 7,650 |
| Share-based payments | 33,813 | 64,622 |
| | $ 199,577 | $ 226,786 |

d) Prepayments

Included in amounts receivable and prepayments as at October 31, 2014 is $Nil (2013 - $6,215) paid to a director of the Company.

## 14. INCOME TAX EXPENSE AND DEFERRED TAX ASSETS AND LIABILITIES

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

| | Year ended October 31, 2014 | Year ended October 31, 2013 |
|---|---|---|
| Net loss | $ 1,648,033 | $ 1,382,417 |
| | | |
| Statutory tax rate | 26% | 25% |
| Expected income tax recovery at the statutory tax rate | $ 433,686 | $ 345,604 |
| Non-deductible items and other | (261,269) | (17,626) |
| Effect of changes in tax rates | 33,874 | 5,966 |
| Temporary differences not recognized | (206,291) | (333,944) |
| Income tax recovery | $ - | $ - |

Expressed in Canadian Dollars

## 14. INCOME TAX EXPENSE AND DEFERRED TAX ASSETS AND LIABILITIES (Cont'd)

Significant components of the Company's deferred tax assets, after applying enacted corporate income tax rates, are as follows:

| | Year ended October 31, 2014 | Year ended October 31, 2013 |
|---|---|---|
| Non-capital loss carry-forwards | $ 836,984 | $ 625,264 |
| Equipment | 4,896 | 353 |
| Exploration and evaluation assets | 134,325 | 143,189 |
| Share issuance costs | 14,165 | 15,273 |
| | 990,370 | 784,079 |
| Valuation allowance | (990,370) | (784,079) |
| Net deferred tax asset | $ - | $ - |

The tax pools relating to these deductible temporary differences expire as follows:

| | Canadian non-capital losses | Canadian resource pools | Mexican tax losses | Share issue costs |
|---|---|---|---|---|
| 2028 | $ 8,296 | $ - | $ - | $ - |
| 2029 | 35,012 | - | - | - |
| 2030 | 74,730 | - | - | - |
| 2031 | 247,082 | - | - | - |
| 2032 | 874,153 | - | 8,401 | - |
| 2033 | 725,347 | - | 118,936 | - |
| 2034 | 958,375 | | 129,350 | |
| No expiry | - | 1,726,826 | - | 54,480 |
| | $ 2,922,995 | $ 1,726,826 | $ 256,687 | $ 54,480 |

## 15. FINANCIAL INSTRUMENTS RISK AND CAPITAL MANAGEMENT

The Company is exposed through its operations to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk
- Foreign Exchange Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

There have been no substantive changes in the Company's exposure to financial instrument risks, its objectives, policies and processes for managing those risks or the methods used to measure them from previous years unless otherwise stated in the note.

*General Objectives, Policies and Processes:*

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function. The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

a) Interest Risk

Interest rate risk is the risk that future cash flows will fluctuate as a result of changes in market interest rates. The Company does not have any borrowings. Interest rate risk is limited to potential decreases on the interest rate offered on cash and cash equivalents held with chartered Canadian financial institutions. The Company considers this risk to be low.

**Expressed in Canadian Dollars**

## 15. FINANCIAL INSTRUMENTS RISK AND CAPITAL MANAGEMENT (Cont'd)

b) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or counterparty to a financial instrument fails to meet its contractual obligations. Financial instruments which are potentially subject to credit risk for the Company consist primarily of cash and cash equivalents. The Company has $34,790 of cash as at October 31, 2014 (2013 - $29,263). The majority of the cash balance is held at a large Canadian bank and the Company considers the credit risk to be minimal.

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases.

Typically, the Company ensures that it has sufficient cash on demand to meet expected operational expenses for a period of 12 months. To achieve this objective, the Company prepares annual capital expenditure budgets, which are regularly monitored and updated as considered necessary. Further, the Company utilizes authorizations for expenditures on exploration projects to further manage expenditures. Liquidity risk is considered to be high.

d) Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company does not hedge its exposure to fluctuations in foreign exchange rates.

*Capital Management:*

The Company considers its cash, common shares, warrants and stock options as capital. The Company's objectives when maintaining capital are to maintain sufficient capital base in order to meet its short-term obligations and at the same time preserve investor's confidence required to sustain future development and production of the business. The Company is not exposed to any externally imposed capital requirements. There were no changes in the Company's approach to capital management during the year.

*Classification of financial instruments:*

Financial assets included in the statement of financial position are as follows:

| | October 31, 2014 | October 31, 2013 |
|---|---|---|
| Fair value through profit and loss: | | |
| Cash and cash equivalents | $ 34,790 | $ 29,263 |
| Loans and receivables: | | |
| Trade receivable | - | 8,724 |
| Other receivables | 10,573 | 4,520 |
| | $ 45,363 | $ 42,507 |

Financial liabilities included in the statement of financial position are as follows:

| | October 31, 2014 | October 31, 2013 |
|---|---|---|
| Non-derivative financial liabilities: | | |
| Accounts payable | $ 199,625 | $ 121,718 |

Expressed in Canadian Dollars

## 15. FINANCIAL INSTRUMENTS RISK AND CAPITAL MANAGEMENT (Cont'd)

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

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

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

The Company's financial instruments classified as level 1 are cash and cash equivalents.

## 16. SEGMENTED REPORTING

Operating segments

An operating segment is defined as a component of the Company that engages in business activities from which it may earn revenues and incur expenses, whose operating results are reviewed regularly by the Company's chief operating decision maker, and for which financial information is available. The Company has determined that it has two reportable operating segments, being mining and exploration. The acquisition, exploration, development mineral properties, which occur within Canada (Luciana- Gold, Griffith and Brougham - Graphite, Grand Lac du Nord - Graphite) and mining in Mexico (Nuevo San Pedro, Aki Wiki, and El Tejon - Graphite).

Geographic segments

All of the Company's revenues are earned in Mexico. The following non-current assets are located in the following countries:

| | As at October 31, 2014 | | |
|---|---|---|---|
| | Canada | Mexico | Total |
| Equipment | $ 212,376 | $ 6,380 | $ 218,756 |
| Deferred acquisition costs | 430,492 | 785,158 | 1,215,650 |
| | $ 642,6868 | $ 791,538 | $ 1,434,406 |

| | As at October 31, 2013 | | |
|---|---|---|---|
| | Canada | Mexico | Total |
| Equipment | $ 1,057 | $ 121,258 | $ 122,315 |
| Deferred acquisition costs | 710,888 | 396,973 | 1,107,861 |
| | $ 711,945 | $ 518,231 | $ 1,230,176 |

## 17. EXPLORATION AND EVALUATION EXPENSES

| | El Tejon | Griffith and Brougham | Grand Lac du Nord | Nuevo San Pedro and Aki Wiki | Total for the year ended October 31, 2014 |
|---|---|---|---|---|---|
| Geological consulting | $ 94,343 | $ - | $ 8,962 | $ 255,756 | $ 359,061 |
| Other | - | - | - | 5,307 | 5,307 |
| | $ 94,343 | $ - | $ 8,962 | $ 261,063 | $ 364,368 |

| | Luciana | Griffith and Brougham | Grand Lac du Nord | Nuevo San Pedro and Aki Wiki | Total for the year ended October 31, 2013 |
|---|---|---|---|---|---|
| Geological consulting | $ - | $ - | $ - | $ 405,972 | $ 405,972 |
| Other | - | - | - | 13,635 | 13,635 |
| | $ - | $ - | $ - | $ 419,607 | $ 419,607 |

## 18. ACQUISITION PROPOSAL FROM FLINDERS RESOURCES

On September 2, 2014, Flinders Resources Limited (“Flinders") and the Company jointly announced that they entered into a binding letter agreement (the "Letter Agreement”) dated August 29, 2014, under which Flinders will acquire all of the issued and outstanding common shares of the Company by way of a plan of arrangement under the Business Corporations Act (British Columbia) (the “Arrangement”).

Upon completion of the Arrangement, the Company will become a wholly-owned subsidiary of Flinders. Under the terms of the Arrangement the Company’s shareholders will receive one Flinders common share (a "Flinders Share") for each nine common shares of the Company (the "Big North Shares") resulting in the issuance of approximately 9 million Flinders Shares in exchange for 81 million common shares of the Company.

Pursuant to the Letter Agreement:

- The Company’s shareholders will receive one Flinders Share for each nine Big North Shares held;
- All outstanding options and warrants of the Company will be exchanged or assumed by Flinders and adjusted in accordance with the same exchange ratio;
- It is a condition to closing of the Arrangement that all outstanding convertible notes of the Company (the "Debentures") be converted into common shares or redeemed in accordance with their terms and no Debentures remain outstanding as at the closing of the Arrangement;
- Each of Flinders and the Company will undertake a due diligence investigation of the other which must be completed on or before October 6, 2014;
- Flinders and the Company have agreed to negotiate in good faith and enter into a definitive arrangement agreement relating to the Arrangement (the "Definitive Agreement") incorporating the terms of the Letter Agreement together with additional representations, warranties, covenants, conditions and agreements as are standard for a transaction of this nature on or before October 17, 2014, or such later date as the parties mutually agree;
- The obligation of Flinders and the Company to enter into the Definitive Agreement is subject to each party being satisfied, in its sole discretion, with its due diligence investigation of the other;
- Concurrently with the execution of the Definitive Agreement, each director and officer of the Company will enter into a support agreement with Flinders pursuant to which such director or officer will agree, among other things, to vote any Big North Shares which such director or officer holds or exercises control or direction over in favour of the Arrangement;
- The Company will pay Flinders a break fee in the amount of $500,000 should the Company terminate the Letter Agreement in certain circumstances; and
- The Company has agreed that it will not solicit or initiate any discussions concerning any other acquisition proposals.

The Arrangement will be subject to standard closing conditions for a transaction of this nature including, without limitation, receipt of all required shareholder, court and regulatory approvals. The Arrangement may be terminated by either party if closing has not occurred by December 31, 2014, or such later date as the parties mutually agree.

The Company will hold a shareholder meeting to consider and approve the Arrangement no later than December 15, 2014. The terms of the Arrangement will be described in further detail in the Management Information Circular of the Company to be filed with regulatory authorities and mailed to Big North shareholders in accordance with applicable securities laws.

On October 21, 2014, Flinders and the Company agreed to extend the due diligence period to November 3, 2014. Accordingly the definitive agreement date was extended to November 3, 2014.

## 19. SUBSEQUENT EVENTS

a) Plan of arrangement with Flinders

On November 3, 2014, Flinders and the Company agreed to extend the due diligence period to November 30, 2014. As a result, the entering into a definitive agreement to incorporate the terms of the Letter Agreement dated August 29, 2014, has been extended to November 30, 2014.

On January 22, 2015, Flinders notified the Company that it has terminated the binding letter agreement dated August 29, 2014 between the companies .

## 19. SUBSEQUENT EVENTS (Cont'd)

b) Exercised option for Grand Lac du Nord Graphite Property

On November 17, 2014, the Company exercised its option to acquire a 100% interest in the Grand Lac du Nord Graphite Property located in eastern Quebec pursuant to the terms of an option agreement (Note 8).

c) Issuance of units upon conversion of convertible notes

On November 6, 2014, the Company issued 1,025,205 shares upon conversion of $50,000 of convertible debt principal and $1,260 accrued interest (Note 10). This portion of the convertible notes of $51,260 was converted effective October 31, 2014; however the shares were not issued until subsequent to year end (Note 10).

d) Expiration of warrants

On December 18, 2014, 7,084,356 warrants with an exercise price of $0.12 expired unexercised. On January 9, 2015, 3,000,000 warrants with an exercise price of $0.05 expired unexercised (Note 11).