# CARMAX MINING CORP.

## FINANCIAL STATEMENTS

### FOR THE YEARS ENDED JULY 31, 2014 AND 2013

**(Expressed in Canadian Dollars)**

MORGAN
COMPANY LLP
CHARTERED ACCOUNTANTS

# INDEPENDENT AUDITOR'S REPORT

To the Shareholders of
Carmax Mining Corp.

**Report on the financial statements**

We have audited the accompanying financial statements of Carmax Mining Corp., which comprise the statements of financial position as at July 31, 2014 and 2013, and the statements of operations and 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 financial statements**

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

**Auditor's responsibility**

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

**Opinion**

In our opinion, the financial statements present fairly, in all material respects, the financial position of Carmax Mining Corp. as at July 31, 2014 and July 31, 2013, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Vancouver, Canada

*"Morgan & Company LLP"*

October 23, 2014

Chartered Accountants

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# CARMAX MINING CORP.

## STATEMENTS OF FINANCIAL POSITION
**(Expressed in Canadian Dollars)**

| | JULY 31 2014 | 2013 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash | **$ 290,538** | $ 28,518 |
| Short term investments | **751,360** | 300,345 |
| Other receivables | **36,501** | 13,633 |
| B.C. Mining Exploration Tax Credit receivable | **158,568** | 464,239 |
| Exploration advances | **80,000** | - |
| Prepaid expenses | **44,283** | 2,022 |
| **Total Current Assets** | **1,361,250** | 808,757 |
| **Equipment** (Note 5) | **1,409** | 3,961 |
| **Investment** (Note 6) | **6,000** | 5,000 |
| **Reclamation Deposits** (Note 7) | **135,000** | 135,000 |
| **Exploration and Evaluation Assets** (Note 8) | **7,755,084** | 7,585,639 |
| **Total Assets** | **$ 9,258,743** | $ 8,538,357 |
| **LIABILITIES AND EQUITY** | | |
| **Current Liabilities** | | |
| Accounts payable and accrued liabilities | **$ 300,343** | $ 35,798 |
| **Decommissioning Provision** (Note 9) | **34,762** | 34,200 |
| **Total Liabilities** | **335,105** | 69,998 |
| **Equity** | | |
| Share capital (Note 10) | **13,541,384** | 12,366,842 |
| Share-based payment reserve | **458,440** | 360,779 |
| Accumulated other comprehensive loss | **(18,500)** | (19,500) |
| Deficit | **(5,057,686)** | (4,239,762) |
| **Total Equity** | **8,923,638** | 8,468,359 |
| **Total Liabilities and Equity** | **$ 9,258,743** | $ 8,538,357 |

These financial statements were approved and authorized for issue by behalf of the Board of Directors on October 23, 2014 by:

| | |
|---|---|
| "Jevin Werbes" | "Chris Healey" |
| Chief Executive Officer | Director |

# CARMAX MINING CORP

## STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
**(Expressed in Canadian Dollars)**

| | YEARS ENDED JULY 31 2014 | 2013 |
|---|---|---|
| **Expenses** | | |
| Accretion expense | $ **562** | $ - |
| Consulting | **38,448** | 20,225 |
| Investor relations | **-** | 10,000 |
| Insurance | **3,750** | - |
| Management fees (Note 13) | **60,000** | 60,000 |
| Office and sundry (Note 13) | **35,735** | 42,303 |
| Professional fees | **36,509** | 42,549 |
| Promotion and entertainment | **11,428** | 6,036 |
| Property investigation costs (Note 13) | **-** | 112,025 |
| Rent | **27,600** | 27,600 |
| Share-based payments (Note 11,13) | **239,900** | - |
| Shareholder communications | **12,772** | 5,477 |
| Transfer agent and regulatory fees | **21,863** | 18,488 |
| Travel | **3,386** | 5,799 |
| **Loss Before Other Items** | **(491,953)** | (350,502) |
| **Other Items** | | |
| Interest income | **10,181** | 6,539 |
| Write-off of exploration and evaluation assets (Note 8) | **(478,391)** | - |
| | **(468,210)** | 6,539 |
| **Net Loss For The Year** | **(960,163)** | (343,963) |
| **Other Comprehensive Income** | | |
| Net unrealized gain arising on available for sale investments during the year | **1,000** | 1,000 |
| **Comprehensive Loss** | $ **(959,163)** | $ (342,963) |
| **Basic and Fully Diluted Loss Per Share** | $ **(0.03)** | $ (0.01) |
| **Weighted Average Number Of Shares Outstanding - Basic and Diluted** | **31,293,375** | 27,515,998 |

# CARMAX MINING CORP.

## STATEMENTS OF CHANGES IN EQUITY
## FOR THE YEARS ENDED JULY 31, 2014 AND 2013
### (Expressed in Canadian Dollars)

| | SHARE CAPITAL | | SHARE-BASED PAYMENT | ACCUMULATED OTHER COMPREHENSIVE | | TOTAL SHAREHOLDERS' |
|---|---|---|---|---|---|---|
| | SHARES | AMOUNT | RESERVE | LOSS | DEFICIT | EQUITY |
| Balance, July 31, 2012 | 27,515,998 | $ 12,366,842 | $ 531,943 | $ (20,500) | $ (4,066,963) | $ 8,811,322 |
| Revaluation of investment to market value | - | - | - | 1,000 | - | 1,000 |
| Expiration of share-based compensation | - | - | (171,164) | - | 171,164 | - |
| Net loss for the year | - | - | - | - | (343,963) | (343,963) |
| Balance, July 31, 2013 | 27,515,998 | 12,366,842 | 360,779 | (19,500) | (4,239,762) | 8,468,359 |
| Shares issued for cash | 24,660,000 | 1,233,000 | - | - | - | 1,233,000 |
| Share issuance costs (Note 10) | - | (58,458) | - | - | - | (58,458) |
| Revaluation of investment to market value | - | - | - | 1,000 | - | 1,000 |
| Expiration of share-based compensation | - | - | (142,239) | - | 142,239 | - |
| Share-based compensation (Note 11) | - | - | 239,900 | - | - | 239,900 |
| Net loss for the year | - | - | - | - | (960,163) | (960,163) |
| **Balance July 31, 2014** | **52,175,998** | **$ 13,541,384** | **$ 458,440** | **$ (18,500)** | **$ (5,057,686)** | **$ 8,923,638** |

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

# CARMAX MINING CORP.

## STATEMENTS OF CASH FLOWS
**(Expressed in Canadian Dollars)**

| | YEARS ENDED JULY 31 2014 | 2013 |
|---|---|---|
| **Cash Flows From (Used In) Operating Activities** | | |
| Net loss for the year | **$ (960,163)** | $ (343,963) |
| Items not affecting cash: | | |
| Accrued interest | **(1,015)** | 820 |
| Accretion | **562** | - |
| Share–based payments (Note 11) | **239,900** | - |
| Write-off of exploration and evaluation assets (Note 8) | **478,391** | - |
| Changes in non-cash working capital items: | | |
| Prepaid expenses | **(42,261)** | 19,978 |
| Exploration advances | **(80,000)** | - |
| Other receivables | **(22,868)** | 2,339 |
| Accounts payable and accrued liabilities | **24,978** | (21,893) |
| **Cash Outflows From Operating Activities** | **(362,476)** | (342,719) |
| **Cash Flows From (Used in) Investing Activities** | | |
| Short term investments (net) | **(450,000)** | 450,000 |
| Exploration and evaluation assets | **(564,285)** | (74,128) |
| Reclamation bond | **-** | (25,000) |
| B.C. Mining Exploration Tax Credit received (BCMETC) | **464,239** | - |
| **Cash Inflows(Outflows) from Investing Activities** | **(550,046)** | 350,872 |
| **Cash Flows From (Used in) Financing Activities** | | |
| Proceeds from share issuances | **1,233,000** | - |
| Share issue costs (Note 10) | **(58,458)** | - |
| **Cash Inflows From Financing Activities** | **1,174,542** | - |
| **Increase In Cash For The Year** | **262,020** | 8,153 |
| **Cash, Beginning Of Year** | **28,518** | 20,365 |
| **Cash, End Of Year** | **$ 290,538** | $ 28,518 |
| **Supplemental Disclosure Of Cash Flow Information** | | |
| BCMETC offset against exploration expenditures | **$ 158,568** | $ 18,485 |
| Exploration expenditures included in accounts payable | **$ 252,188** | $ 12,621 |

## 1. NATURE OF OPERATIONS

Carmax Mining Corp. was incorporated under the Canada Business Corporations Act on June 16, 2000 and is listed on the TSX Venture Exchange.

The address of the Company's corporate office and principal place of business is Suite 300 – 235 West 15th Street, West Vancouver, British Columbia, V7T 2X1.

The Company's principal business activity is the acquisition and exploration of resource properties. The Company presently has no proven or probable reserves and on the basis of information to date, it has not yet determined whether these properties contain economically recoverable ore reserves. Consequently, the Company considers itself to be an exploration stage company.

## 2. BASIS OF PRESENTATION

a) Statement of Compliance

These financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

These financial statements were authorized for issue by the Board of Directors on October 23, 2014.

b) Basis of Measurement

These financial statements have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The functional currency of the Company is the Canadian dollar, being the currency of the economic environment of the Company's operations. The functional currency is also the presentation currency.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. See Note 4 for Critical Accounting Estimates and Judgments made by management in the application of IFRS.

## 3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies used in the preparation of these financial statements set out below have been applied consistently in all material respects.

### Cash and Cash Equivalents

For purposes of the Statement of Cash Flows, the Company considers all highly liquid debt instruments purchased with a maturity of three months or less to be cash equivalents to the extent the funds are not being held for investment purposes. As of July 31, 2014 and 2013, the Company had no cash equivalents.

### Short Term Investments

Short term investments include investments that are convertible to known amounts of cash and have a maturity of one year or less.

### Basic and Diluted Loss per Share

Basic earnings per share are computed by dividing the loss for the year by the weighted average number of common shares outstanding during the year. Diluted earnings per share reflect the potential dilution that could occur if potentially dilutive securities were exercised or converted to common stock. The dilutive effect of options and warrants and their equivalent is computed by application of the treasury stock method and the effect of convertible securities by the "if converted" method. Diluted amounts are not presented when the effect of the computations are anti-dilutive due to the losses incurred. Accordingly, there is no difference in the amounts presented for basic and diluted loss per share.

### Exploration and Evaluation Assets

<u>Pre-exploration costs</u>

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

<u>Exploration and evaluation costs for mineral properties</u>

Once the legal right to explore a property has been acquired, exploration and evaluation expenditures are recognized and capitalized. Mineral exploration costs are capitalized on an individual prospect basis until such time as an economic ore body is defined or the prospect is abandoned. Once the technical feasibility and commercial viability of extraction of the mineral resources has been determined, the property is considered to be a property under development and is reclassified as such. Costs for a producing prospect are amortized on a unit-of-production method based on the estimated life of the ore reserves, while those costs for the prospects abandoned are written off.

Exploration and evaluation assets are assessed for impairment when facts and circumstances suggest that the carrying amount of an exploration and evaluation asset may exceed its recoverable amount. When facts and circumstances suggest that the carrying amount exceeds the recoverable amount, an impairment loss is recognized

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Exploration and Evaluation Assets** (Continued)

Facts and circumstances that indicate a test for impairment as defined in *IFRS 6 exploration and evaluation assets* include the following:

- the period for which the entity has the right to explore in the specific area has expired during the period or will expire in the near future, and is not expected to be renewed;
- substantive expenditure on further exploration for and evaluation of mineral resources in the specific area is neither budgeted nor planned;
- exploration for and evaluation of mineral resources in the specific area have not led to the discovery of commercially viable quantities of mineral resources and the entity has decided to discontinue such activities in the specific area;
- sufficient data exist to indicate that, although a development in the specific area is likely to proceed, the carrying amount of the exploration and evaluation asset is unlikely to be recovered in full from successful development or by sale.

The recoverability of the amounts capitalized for the undeveloped mineral property is dependent upon the determination of economically recoverable ore reserves, confirmation of the Company's interest in the underlying mineral claims, the ability to obtain the necessary financing to complete their development, and future profitable production or proceeds from the disposition thereof.

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to its mineral properties and, to the best of its knowledge, the title to its properties are in good standing.

Management's capitalization of exploration and development costs and assumptions regarding the future recoverability of such costs are subject to significant estimation uncertainty. Management's assessment of recoverability is based on, among other things, the Company's estimate of current mineral reserves and resources which are supported by geological estimates, estimated commodity prices, and the procurement of all necessary regulatory permits and approvals. These assumptions and estimates could change in the future and this could materially affect the carrying value and the ultimate recoverability of the amounts recorded for mineral properties.

Mining Tax Credits

Mining tax credits are recorded in the financial statements when there is reasonable assurance that the Company has complied with, and will continue to comply with, all conditions needed to obtain the credits. These non-repayable mining tax credits are earned in respect to exploration costs incurred in British Columbia, Canada and are recorded as a reduction of the related exploration and evaluation assets.

**Equipment**

Exploration equipment is recorded at cost and depreciated over its estimated useful life at 30% straight line per annum.

The cost of an item includes the purchase price and directly attributable costs to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Where an item of equipment comprises major components with different useful lives, the components are accounted for as separate items of equipment.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Equipment** (Continued)

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

**Share-Based Payments**

Equity-settled share based payments for directors, officers, employees and consultants are measured at fair value using the Black-Scholes option valuation model at the stock option grant date and recorded as an expense in the financial statements with a corresponding increase in the share-based payment reserve. The fair value determined at the grant date of the equity-settled share based payments is expensed using the graded vesting method over the vesting period based on the Company's estimate of the amount of shares that will eventually vest. Consideration paid by optionees on exercise of stock options together with their fair values is credited to share capital. The fair values of expired, forfeited and cancelled options are removed from the share-based payment reserve and credited to deficit.

Compensation expense on stock options granted to consultants is measured at the earlier of the completion of performance and the date the options are vested at the fair value of the goods and services received and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received. 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 the use of the Black-Scholes 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.

**Income Taxes**

Income tax expense comprises of current and deferred tax. Current and deferred tax is recognized in the statement of operations except to the extent that it relates to a business combination or items recognized directly in equity or other comprehensive income, in which case the income tax is also recognized directly in equity or other comprehensive income.

Current income taxes are the expected tax payable on the taxable income for the year, using tax rates enacted, or substantively enacted, at the end of the reporting period, and any adjustment to tax payable in respect of previous years.

Deferred tax assets and liabilities are recognized in respect of all qualifying temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax is determined on a non-discounted basis using tax rates and laws that have been enacted or substantively enacted at the statement of financial position date and are expected to apply when the deferred tax asset or liability is settled. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. Deferred tax assets are recognized to the extent that it is probable that the assets can be recovered.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

### Impairment of Long-lived Assets

The Company's tangible and intangible assets are reviewed for an indication of impairment at each statement of financial position date. If indication of impairment exists, the asset's recoverable amount is estimated.

An impairment loss is recognized when the carrying amount of an asset, or its cash-generating unit, exceeds its recoverable amount. A cash-generating unit is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in the statement of operations for the period. Impairment losses recognized in respect of cash-generating units are allocated first to reduce the carrying amount of any goodwill allocated to cash-generating units and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

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

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

### Financial Instruments

Financial assets and liabilities are recognized when the Company becomes a party to the contractual provisions of the instrument. Financial assets are derecognized when the rights to receive cash flows from the assets have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. Financial assets and liabilities are offset and the net amount reported in the statement of financial position when there is a legally enforceable right to offset the recognized amounts and there is an intention to settle on a net basis, or realize the asset and settle the liability simultaneously.

At initial recognition, the Company classifies its financial assets in the following categories depending on the purpose for which the instruments were acquired.

Financial assets are classified into one of four categories: Financial assets at fair value through profit or loss ("FVTPL"), Held-to-maturity investments, available for sale ("AFS") financial assets and loans and receivable.

The Company has classified cash, and short term investments as FVTPL and reclamation deposits and other receivables as loans and receivable, which are recorded at amortized cost.

The Company has classified the investment as AFS. Available for sale financial assets are measured at fair value, with unrealized gains and losses recorded in other comprehensive income or loss until the asset is realized, at which time they will be recorded in net income or loss.

**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Financial Instruments** (Continued)

At each reporting date, the Company assesses whether there is objective evidence that a financial asset is impaired. Financial assets are impaired when one or more events that occurred after the initial recognition of the financial asset have been impacted.

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of the estimated future cash flows, discounted at the financial asset's original effective interest rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in the statement of operations.

Impairment losses on loans and receivables carried at amortized cost are reversed in subsequent periods if the amount of the loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized. Impairment losses on available-for-sale equity instruments are not reversed.

Financial liabilities within the scope of IAS 39 are classified as financial liabilities at FVTPL, or other financial liabilities, as appropriate.

The Company determines the classification of its financial liabilities at initial recognition. All financial liabilities are recognized initially at fair value.

The Company's financial liabilities include accounts payables and accrued liabilities. Subsequent to initial recognition, accounts payable and accrued financial liabilities are measured at amortized cost using the effective interest method.

**Decommissioning Provisions**

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of tangible long-lived assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates is capitalized to the amount of the related asset along with a corresponding increase in the decommissioning provision in the period incurred. Provisions are determined by discounting the risk-adjusted expected future cash flows to take into consideration risks and uncertainties involving the transaction. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The decommissioning cost is depreciated on the same basis as the related asset. The liability is progressively increased each period as the effect of discounting unwinds, creating an expense recognition in the statement of operations.

The Company's estimates of reclamation costs could change as a result of changes in regulatory requirements and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the rehabilitation provision.

## 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

**Decommissioning Provisions** (Continued)

The Company's estimates are reviewed at each reporting date for changes in regulatory requirements, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to the statement of operations for the period.

**Translation of Foreign Currencies**

The financial statements are presented in Canadian dollars which is the Company's functional and presentation currency.

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 and are not subsequently retranslated.

Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in profit or loss in the statement of operation in the period in which they arise.

**Share Capital**

Share issue costs

Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issue costs incurred in advance of share subscriptions are recorded as non-current deferred assets. Share issue costs related to uncompleted share subscriptions are charged to operations.

Fair value of warrants

Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair value using the residual method to determine the fair value of warrants issued. The value of warrants issued to brokers is determined by using the Black-Scholes model.

Flow-through shares

The Company provides certain share subscribers with a flow-through component for tax incentives available on qualifying Canadian exploration expenditures. The increase to share capital when flow-through shares are issued is measured based on the current market price of common shares. Any premium, being the excess of the proceeds over the market value of the common shares, is recorded as a liability. At the later of the renouncing and the incurrence of the expenditure, the Company de-recognizes the liability, and the premium amount is recognized as a credit to deferred tax in the statement of operations. The Company may 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.

**3. SIGNIFICANT ACCOUNTING POLICIES** (Continued)

**Accounting Standards Issued But Not Yet Applied**

International Financial Reporting Standard 9, Financial Instruments ("IFRS 9"), was issued in November 2009. It addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely. This standard is required to be applied for accounting periods beginning on or after January 1, 2018, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

**Recently Adopted Accounting Pronouncements**

The following new accounting policies were adopted by the Company on January 1, 2013 and had no significant impact on the Company's financial position and results of operations:

- IFRS 10 Establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities (This standard was effective for all annual periods beginning on or after January 1, 2013);

- IFRS 11 Establishes principles for financial reporting by parties to a joint arrangement (This standard was effective for all annual periods beginning on or after January 1, 2013);

- IFRS 12 Applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity (This standard was effective for all annual periods beginning on or after January 1, 2013);

- IFRS 13 Defines fair value, sets out in a single IFRS framework for measuring value and requires disclosures about fair value measurements (This standard was effective for all annual periods beginning on or after January 1, 2013);

- IAS 27 Contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements (This standard was effective for all annual periods beginning on or after January 1, 2013);

- IAS 28 Sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures (This standard was effective for all annual periods beginning on or after January 1, 2013).

## 4. USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The preparation of the financial statements also requires management to exercise judgment in the process of applying the accounting policies.

On an on-going basis, management evaluates its judgments and estimates in relation to assets, liabilities and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances, as the basis for its judgments and estimates. Revisions to accounting estimates are recognised prospectively from the period in which the estimates are revised. Actual outcomes may differ from those estimates under different assumptions and conditions.

Critical Accounting Estimates

The following are the key estimate and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

Impairment

Assets, especially exploration and evaluation assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The assessment of the recoverable amount requires estimates and assumptions such as discount rates, exchange rates, commodity prices, future capital requirements and future operating performance.

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.

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.

Rehabilitation provisions

Management's best estimates regarding the rehabilitation provisions are based on the current economic environment and future cash flows. Changes in estimates of contamination, restoration standards and restoration activities result in changes to provisions from period to period. Actual rehabilitation provisions will ultimately depend on future market prices for future rehabilitation obligations.

## 4. USE OF ESTIMATES AND JUDGEMENTS (Continued)

Critical Judgments Used in Applying Accounting Policies

Going concern

Financial statements are prepared on a going concern basis unless management either intends to liquidate the Company or to cease trading, or has no realistic alternative to do so. Assessment of the Company's ability to continue as a going concern requires the consideration of all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. This information includes estimates of future cash flows and other factors, the outcome of which is uncertain. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cost significant doubt upon the Company's ability to continue as a going concern those uncertainties are disclosed. Management has determined that disclosure is not required in these statements.

Exploration and evaluation expenditures

The application of the Company's accounting policy for exploration and evaluation expenditures 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 the expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the statement of operations in the period the new information becomes available.

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.

(Expressed in Canadian Dollars)

## 5. EQUIPMENT

| | FIELD EQUIPMENT |
|---|---|
| **Cost** | |
| Balance, July 31, 2013 | $ 8,500 |
| Additions | |
| Disposals | - |
| Balance July 31, 2014 | $ 8,500 |
| **Amortization** | |
| Balance, July 31, 2013 | $ 4,539 |
| Charge for the period | 2,552 |
| Disposals | - |
| Balance July 31, 2014 | $ 7,091 |
| **Net Book Value** | |
| **Balance July 31, 2014** | **$ 1,409** |

| | FIELD EQUIPMENT |
|---|---|
| **Cost** | |
| Balance, July 31, 2012 | $ 8,500 |
| Additions | |
| Disposals | - |
| Balance July 31, 2013 | $ 8,500 |
| **Amortization** | |
| Balance, July 31, 2012 | $ 1,987 |
| Charge for the year | 2,552 |
| Disposals | - |
| Balance July 31, 2013 | $ 4,539 |
| **Net Book Value** | |
| **Balance July 31, 2013** | **$ 3,961** |

## 6. INVESTMENT

| | **2014** | 2013 |
|---|---|---|
| Alexandria Minerals Corporation – 100,000 common shares quoted at market value | **$ 6,000** | $ 5,000 |

## 7. RECLAMATION DEPOSITS

The Company was required to post three bonds totalling $135,000, relating to the exploration of the Eaglehead Property in British Columbia. The deposits will be refunded to the Company upon completion of reclamation to the satisfaction of the Inspector of Mines. The reclamation deposits are being held in term deposits with various interest rates.

(Expressed in Canadian Dollars)

## 8. EXPLORATION AND EVALUATION ASSETS

Mineral property costs for the year ended July 31, 2014, comprise:

| | WHISKEY JACK CREEK PROPERTY | EAGLEHEAD PROPERTY | TOTAL |
|---|---|---|---|
| **Property Acquisition Costs** | | | |
| Balance, July 31, 2013 | $ 4,000 | $ 611,500 | $ 615,500 |
| Additions in the year | - | 11,011 | 11,011 |
| Write down of acquisition costs | (3,999) | - | (3,999) |
| **Balance July 31, 2014** | **$ 1** | **$ 622,511** | **$ 622,512** |
| **Deferred Exploration Expenditures** | | | |
| Balance, July 31, 2013 | $ 474,392 | $ 6,495,747 | $ 6,970,139 |
| Additions in the year | | | |
| Drilling | | 133,919 | 133,919 |
| Engineering and consulting | - | 129,612 | 129,612 |
| Camp costs | - | 133,834 | 133,834 |
| Linecutting and permitting | - | 158,000 | 158,000 |
| Supplies | - | 14,035 | 14,035 |
| Board and travel | - | 107,938 | 107,938 |
| Assays | - | 2,586 | 2,586 |
| Reports and mapping | - | 16,648 | 16,648 |
| Transportation | - | 6,893 | 6,893 |
| Labour and technicians | - | 87,976 | 87,976 |
| Equipment rental | - | 1,400 | 1,400 |
| Amortization of field equipment | - | 2,552 | 2,552 |
| B.C. Mining Exploration Tax Credit receivable | - | (158,568) | (158,568) |
| | - | 636,825 | 636,825 |
| Write down of deferred exploration expenditures | (474,392) | - | (474,392) |
| **Balance, July 31, 2014** | **$ -** | **$ 7,132,572** | **$ 7,132,572** |
| **Total Balance, July 31, 2014** | **$ 1** | **$ 7,755,083** | **$ 7,755,084** |

**(Expressed in Canadian Dollars)**

## 8. EXPLORATION AND EVALUATION ASSETS (Continued)

Mineral property costs for the year ended July 31, 2013, comprise:

| | WHISKEY JACK CREEK PROPERTY | EAGLEHEAD PROPERTY | TOTAL |
|---|---|---|---|
| **Property Acquisition Costs** | | | |
| Balance, July 31, 2013 and 2012 | $ 4,000 | $ 611,500 | $ 615,500 |
| **Deferred exploration expenditures** | | | |
| Balance, July 31, 2012 | $ 474,392 | $ 6,385,055 | $ 6,859,447 |
| Additions in the year | | | |
| Engineering and consulting | - | 28,475 | 28,475 |
| Camp costs | - | 25,312 | 25,312 |
| Supplies | - | - | - |
| Board and travel | - | 17,753 | 17,753 |
| Assays | - | 409 | 409 |
| Reports and mapping | - | 10,988 | 10,988 |
| Transportation | - | 1,410 | 1,410 |
| Labour and technicians | - | 7,050 | 7,050 |
| Assessment costs | - | - | - |
| Drilling | - | - | - |
| Equipment rental | - | 1,028 | 1,028 |
| Amortization of field equipment | - | 2,552 | 2,552 |
| Decommissioning costs | - | 34,200 | 34,200 |
| B.C. Mining Exploration Tax Credit receivable | - | (18,485) | (18,485) |
| | - | 110,692 | 110,692 |
| Balance, July 31, 2013 | $ 474,392 | $ 6,495,747 | $ 6,970,139 |
| Total balance, July 31, 2013 | $ 478,392 | $ 7,107,247 | $ 7,585,639 |

a) Whiskey Jack Creek Property

Prior to August 1, 2010, and per an option agreement, the Company acquired a 100% interest, subject to a 3% net smelter return royalty, in three mineral claims located in Cairo Townships, Ontario, known as the Whiskey Jack Creek Property. Considerations for the acquisition were cash payments totalling $45,000. The Company also incurred exploration expenditures in excess of $200,000, the minimum requirement per the option agreement.

Upon commencement of commercial production on the property, the Company shall pay the optionor a 3% net smelter return royalty to be reduced to 1% after the payment of $2,000,000 in royalty payments.

**8. EXPLORATION AND EVALUATION ASSETS** (Continued)

a) Whiskey Jack Creek Property (Continued)

The Company acquired an additional 5 claims through staking, consisting of 41 units adjoining the Whiskey Jack Creek Property to the south and east.

Prior to August 1, 2010, the Company entered into an Earning Option Agreement with Alexandria Minerals Corporation ("AMC"), whereby the Company granted to AMC the right to explore and acquire a 50% interest in the 41 units owned by the Company adjoining the Whiskey Jack Creek Property, and to acquire a 50% interest in the rights to the Whiskey Jack Creek Property held by the Company. The agreement is subject to a 3% net smelter return royalty, 2% of which can be purchased by AMC for $500,000 per ½%.

AMC earned its 50% interest in the property by issuing a total of 100,000 common shares of AMC with a fair value of $16,000 and paying $25,000 total cash payments. AMC incurred exploration expenditures in excess of the $300,000 minimum amount required under the agreement. A joint venture is to be established and the parties are currently negotiating the agreement, which will designate a 50% interest for each of the Company and AMC to further develop the property; and AMC will be the operator and manager of the property.

At July 31, 2014 the Company had no current plans to further explore the property. Accordingly an impairment provision of $478,391 was recorded resulting in the property being recorded at $1 at July 31, 2014.

b) Eaglehead Property

The Company has an agreement, effective October 31, 2005, with two former directors of the Company, to acquire a 100% interest in the Eaglehead Property claims, subject to a 2.5% net smelter return royalty, located near the Dease Lake area of north central British Columbia.

During the year ended July 31, 2008, the Company successfully staked an additional six claims adjoining the Eaglehead Property to the southeast.

During the year ended July 31, 2011, the Company completed all the terms of the acquisition agreement including minimum cash payments totalling $350,000, issuing 300,000 common shares and spending a minimum of $6,000,000 in exploration and development costs and earned its 100% interest in the property.

During the year ended July 31, 2014, the Company acquired from Copper Fox Metals Inc. four mineral tenures comprising 2,130 hectares. Three of the mineral tenures comprising of 981 hectares are subject to a 2% Net Smelter Return Royalty, one-half (1%) of which may be purchased for $1,000,000 . The tenures were acquired for $11,011, which was the cost of acquisition to Copper Fox Metals Inc.

(Expressed in Canadian Dollars)

## 9. DECOMMISSIONING PROVISION

The decommissioning provision for the Eaglehead exploration and evaluation assets was estimated by management based on the Company's ownership interest, the estimated timing of the risk adjusted costs to be incurred in future periods and the Company's risk free interest rate of 1.63% at July 31, 2014. The Company has estimated the net present value of this provision at July 31, 2014 to be $34,762 based on a total undiscounted liability of $36,500. This undiscounted cost was determined by using a risk adjusted rate of inflation of 5% annually. These costs are expected to be incurred in 2017.

| | JULY 31 | |
|---|---|---|
| | **2014** | 2013 |
| Balance, beginning of year | **$ 34,200** | $ - |
| Decommissioning provision | **-** | 34,200 |
| Accretion | **562** | - |
| Balance, end of year | **$ 34,762** | $ 34,200 |

## 10. SHARE CAPITAL

a) Authorized

An unlimited number of common shares without par value

b) Issued and Outstanding

On May 28, 2014, the Company closed the first tranche of a non-brokered private placement and issued 20,000,000 units to Northern Fox Copper Inc. a subsidiary company of Copper Fox Metals Inc.("Copper Fox"), at a price of $0.05 per unit for total aggregate proceeds of $1,000,000. Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable into one common share at $0.075 until May 28, 2016. The units are subject to a four month hold period expiring September 28, 2014.

On June 9, 2014, the Company closed the second tranche of a non-brokered private placement and issued 4,660,000 units at a price of $0.05 per unit for total aggregate proceeds of $233,000. Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable into one common share at $0.075 until July 9, 2016. The units are subject to a four month hold period expiring November 9, 2014.

The Company incurred no finders' fees in relation to the private placements. Other share issuance costs comprising legal fees and filing fees were incurred which amounted to $58,458.

During the year ended July 31, 2013 there were no share issuances.

**(Expressed in Canadian Dollars)**

**10. SHARE CAPITAL** (Continued)

c) Warrants

A summary of changes in share purchase warrants for the years ended July 31, 2014 and 2013 is presented below:

| | **YEAR ENDED JULY 31, 2014** | | YEAR ENDED JULY 31, 2013 | |
|---|---|---|---|---|
| | **NUMBER** | **WEIGHTED AVERAGE EXERCISE PRICE** | NUMBER | WEIGHTED AVERAGE EXERCISE PRICE |
| Balance, beginning of year | **-** | **$ -** | 16,549,670 | $ 0.28 |
| Issued | **24,660,000** | **0.075** | - | - |
| Expired | **-** | **-** | (16,549,670) | (0.28) |
| Balance, end of year | **24,660,000** | **$ 0.075** | - | $ - |

As at July 31, 2014 share purchase warrants were outstanding for the purchase of common shares as follows:

| **NUMBER OF WARRANTS** | **PRICE PER WARRANT** | **NUMBER EXERCISABLE AT JULY 31, 2014** | **EXPIRY DATE** |
|---|---|---|---|
| 20,000,000 | $ 0.075 | 20,000,000 | May 28, 2016 |
| 4,660,000 | $ 0.075 | 4,660,000 | July 9, 2016 |
| 24,660,000 | | 24,660,000 | |

As at July 31, 2014, the weighted average remaining contractual life of the share purchase warrants was 1.85 years and the weighted average exercise price was $0.075.

d) Broker's Options

A summary of changes in broker's options for the years ended July 31, 2014 and 2013 is presented below:

| | **YEAR ENDED JULY 31, 2014** | | YEAR ENDED JULY 31, 2013 | |
|---|---|---|---|---|
| | **NUMBER** | **WEIGHTED AVERAGE EXERCISE PRICE** | NUMBER | WEIGHTED AVERAGE EXERCISE PRICE |
| Balance, beginning of year | **-** | **$ -** | 938,610 | $ 0.20 |
| Expired | **-** | **-** | (938,610) | (0.20) |
| Balance, end of year | **-** | **$ -** | - | $ - |

As at July 31, 2014 and 2013, there were no broker's options outstanding.

## (Expressed in Canadian Dollars)

### 11. SHARE-BASED PAYMENTS

Stock Options

The Company has a fixed stock option plan which follows the policies of the TSX Venture Exchange ("TSX-V") regarding stock option awards granted to directors, officers, employees and consultants. The stock option plan allows a maximum of 10% of the issued shares to be reserved for issuance under the plan.

A summary of changes in stock options for the years ended July 31, 2014 and 2013 is presented below:

| | **YEAR ENDED JULY 31, 2014** | | YEAR ENDED JULY 31, 2013 | |
|---|---|---|---|---|
| | **NUMBER** | **WEIGHTED AVERAGE EXERCISE PRICE** | NUMBER | WEIGHTED AVERAGE EXERCISE PRICE |
| Balance, beginning of year | **1,921,000** | **$ 0.23** | 1,971,000 | $ 0.23 |
| Cancelled* | **(450,000)** | **(0.26)** | | |
| Expired/forfeited* | **(271,000)** | **(0.24)** | (50,000) | (0.26) |
| Granted | **4,050,000** | **0.07** | - | - |
| Balance, end of year | **5,250,000** | **$ 0.10** | 1,921,000 | $ 0.23 |

* During the year ended July 31 2014, $142,239 related to the cancelled and expired options was credited to deficit.

As at July 31, 2014, options were outstanding for the purchase of common shares as follows:

| **NUMBER OF SHARES** | **PRICE PER SHARE** | **NUMBER EXERCISABLE AT JULY 31, 2014** | **EXPIRY DATE** |
|---|---|---|---|
| 275,000 | $ 0.26 | 275,000 | October 27, 2015 |
| 875,000 | $ 0.20 | 875,000 | June 17, 2016 |
| 50,000 | $ 0.20 | 50,000 | September 7, 2016 |
| 4,050,000 | $ 0.07 | 4,050,000 | July 9, 2019 |
| 5,250,000 | $ 0.10 | 5,250,000 | |

As at July 31, 2014, the weighted average remaining contractual life of the options was 4.21 years (2013 – 2.27 years) and the weighted average exercise price was $0.10 (2013 - $0.20).

Compensation costs attributable to the granting and vesting of share options are measured at fair value and expensed with a corresponding increase to share-based payment reserve. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in share-based payment reserve is recorded as an increase to share capital. Upon expiry, the amounts recorded for share-based compensation are transferred to the deficit from the share-based payment reserve.

**(Expressed in Canadian Dollars)**

**11. SHARE-BASED PAYMENTS** (Continued)

Options Issued to Employees

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

During the year ended July 31, 2014, the Company recorded $239,900 (2013 - $nil) in share–based payment expense for options accruing or vesting during the period.

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 the Black-Scholes option pricing model.

During the year ended July 31, 2014, the Company did not issue any options to non-employees.

The fair value of each stock option granted to employees is estimated on the date of grant. The fair value of stock options granted to non-employees that vest over time, are re-valued at each vesting period. All stock options are estimated using the Black-Scholes option-pricing model with weighted average assumptions as follows:

| | **2014** | 2013 |
|---|---|---|
| Risk free interest rate | **1.67%** | - |
| Expected life | **5 years** | - |
| Expected volatility | **126%** | - |
| Expected forfeiture | **-** | - |
| Expected dividend yield | **-** | - |
| Fair value of options issued | **$0.06** | - |

(Expressed in Canadian Dollars)

## 12. INCOME TAXES

A reconciliation of income taxes at statutory rates to the Company's effective income tax expense is as follows:

| | **2014** | 2013 |
|---|---|---|
| Statutory tax rate | **26%** | 25% |
| Expected tax recovery based on statutory Canadian combined federal and provincial tax rates | **$ (250,000)** | $ (86,000) |
| Non-deductible permanent differences and other | **49,000** | (2,000) |
| Expiry of non-capital losses | **44,000** | - |
| Effect of change in tax rate | **-** | (12,000) |
| Change in estimate | **-** | (5,000) |
| Change in deferred tax assets not recognized | **157,000** | 105,000 |
| Deferred income tax expense (recovery) | **$ -** | $ - |

The significant components of the Company's deferred income tax assets (liabilities) are as follows:

| | **2014** | 2013 |
|---|---|---|
| Non-capital losses carried forward | **$ 1,169,000** | $ 1,135,000 |
| Decommissioning provision | **9,000** | 9,000 |
| Equipment | **11,000** | 10,000 |
| Investments | **2,000** | 3,000 |
| Share issuance costs deductible in future periods | **26,000** | 27,000 |
| Deferred income tax assets | **1,217,000** | 1,184,000 |
| Excess of book value over tax value: | | |
| Resources properties and deferred exploration expenditures | **(706,000)** | (830,000) |
| Net deferred income tax assets | **511,000** | 354,000 |
| Tax benefits not recognized | **(511,000)** | (354,000) |
| | **$ -** | $ - |

The Company has Canadian non-capital losses carried forward of approximately $4,498,000 (2013 - $4,365,000) that may be available for tax purposes. The potential tax benefits of these losses have not been recognized as realization is not considered more likely than not. The losses expire as follows:

| | | |
|---|---|---|
| 2015 | $ | 294,000 |
| 2026 | $ | 512,000 |
| 2027 | $ | 508,000 |
| 2028 | $ | 578,000 |
| 2029 | $ | 546,000 |
| 2030 | $ | 448,000 |
| 2031 | $ | 527,000 |
| 2032 | $ | 388,000 |
| 2033 | $ | 396,000 |
| 2034 | $ | 301,000 |

### 13. RELATED PARTY TRANSACTIONS

On May 29, 2014, Copper Fox Metals Inc. through its 100% owned subsidiary, Northern Fox Copper Inc. acquired 20,000,000 units of the Company. Units consisted of one previously unissued common share and one common share purchase warrant. Each warrant is exercisable until May 28, 2016 and at a price of $0.075. At May 29, 2014, Copper Fox held a 42.09% interest on an undiluted basis. Carmax also granted Copper Fox certain rights, including:

- the right to nominate two members to the Board of Carmax at each annual general meeting;
- the pre-emptive right to participate in any equity financing of the Company; and
- the right to make top-up investments in the Company to maintain its pro rata percentage shareholding.

These rights are subject to Copper Fox and its affiliates maintaining ownership of a minimum of 20% of the Company's issued and outstanding shares.

At May 28, 2014, Copper Fox, on a fully diluted basis held over 50% of the issued and outstanding shares of the Company, and as such has control.

In June of 2014, the Company issued 4,660,000 additional shares, which reduced the interest held by Copper Fox. Accordingly, and as is their right, Copper Fox announced their intention to acquire additional shares to maintain its pro rata percentage shareholding of 42.09% on an undiluted basis. (53.7% on a fully diluted basis). Subsequent to year end, these shares were issued.

Copper Fox, as the parent of the Company, consolidates 100% of the assets and liabilities related to the Company and includes a non-controlling interest of the assets and liabilities within their equity section.

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

Key management personnel are the persons responsible for the planning, directing and controlling the activities of the Company, and includes both executive and non-executive directors, and entities controlled by such persons. The Company considers all directors and officers of the Company to be key management personnel.

At July 31, 2014, included in prepaid expenses is $8,400 (2013 – $nil) due from a company controlled by a director for prepaid management fees.

At July 31, 2014, included in accounts payable and accrued liabilities is $12,146 (2013 - $433) owing to two companies (2013 two companies) controlled by individual directors, $11,011 (2013 – $nil) owing to a company with a common director and $6,788 (2013 - $6,788) owing to a company controlled by an officer for services rendered to the Company. The amounts payable are non-interest bearing, unsecured and have no specific terms of repayment.

(Expressed in Canadian Dollars)

## 13. RELATED PARTY TRANSACTIONS (Continued)

During the years ended July 31, 2014 and 2013, the Company also incurred the following expenses charged by key management personnel and companies directly controlled by key management personnel.

| | 2014 | 2013 |
|---|---|---|
| Balance Sheet Items | | |
| Exploration and evaluation assets | $ 74,286 | $ 27,888 |
| | $ 74,286 | $ 27,888 |
| Statement of Operations Items | | |
| Consulting | $ 948 | $ 2,725 |
| Management fees | 60,000 | 60,000 |
| Office administration | 27,000 | 27,000 |
| Professional fees | 14,450 | 14,000 |
| Property investigation expenses | - | 14,625 |
| Rent | 27,600 | 27,600 |
| Share-based payments | 222,130 | - |
| | $ 352,128 | $ 145,950 |

## 14. CAPITAL DISCLOSURES

The Company was formed for the purpose of acquiring exploration and development stage natural resource properties. The Board of Directors determines the Company's capital structure and makes adjustments to it based on funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The directors have not established a quantitative return on capital criteria for capital management.
The Company holds two mineral properties and generates no revenue. Accordingly, the Company will be dependent in the future upon external financing to fund future exploration programs and its administrative costs. The Company will spend existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if management feels there is sufficient geologic or economic potential, provided it has adequate financial resources to do so.

The Board of Directors reviews its capital management approach on an ongoing basis and believes that its approach, given the relative size of the Company, is reasonable.

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

The Company considers the items included in the Statement of Changes in Equity as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

**(Expressed in Canadian Dollars)**

### 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

IFRS 7 establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

Level 3 – Applies to assets or liabilities for which there are unobservable market data.

Financial assets measured at fair value on a recurring basis:

| | **FAIR VALUE INPUT LEVEL** | **AS AT JULY 31, 2014** | | AS AT JULY 31, 2013 | |
|---|---|---|---|---|---|
| | | **CARRYING AMOUNT** | **ESTIMATED FAIR VALUE** | CARRYING AMOUNT | ESTIMATED FAIR VALUE |
| Financial Assets: | | | | | |
| Cash | 1 | $ 290,538 | $ 290,538 | $ 28,518 | $ 28,518 |
| Short term investment | 1 | $ 751,360 | $ 751,360 | $ 300,345 | $ 300,345 |
| Investment | 1 | $ 6,000 | $ 6,000 | $ 5,000 | $ 5,000 |

Due to the relatively short term liquidity of reclamation deposits and accounts payable and accrued liabilities, the fair value of these instruments approximate their carrying values.
Risk management is carried out by the Company's management team with guidance from the Board of Directors. The Company's risk exposures and their impact on the Company's financial instruments are summarized below:

a) Credit Risk

The Company's credit risk is primarily attributable to cash, short term investments, reclamation deposits and the investment. Cash, short-term investments and reclamation deposits are held with one reputable Canadian chartered bank which is closely monitored by management. The investment consists of shares of Alexandria Minerals Corp, a publicly listed entity. Management believes that the credit risk concentration with respect to financial instruments included in cash, short-term investments and amounts receivable is minimal.

b) Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at July 31, 2014, the Company held cash and short term investments aggregating $1,041,898 (July 31, 2013 - $328,863) and had current liabilities of $300,343 (July 31, 2013 - $35,798). All of the Company's liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

## 15. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

c) Market Risk

i) Interest Rate Risk

The Company had cash balances and short term investments, and no interest bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the creditworthiness of its banks.

ii) Foreign Currency Risk

The Company's functional currency and the reporting currency is the Canadian dollar. Periodically the Company incurs charges on its operations for settlement in currencies other than its functional currency and any gain or loss arising on such transactions is recorded in operations for the year.

The Company does not participate in any hedging activities to mitigate any gains or losses which may arise as a result of exchange rate changes.

As at July 31, 2014, the Company held no financial assets or liabilities which were denominated in currencies other than the Canadian dollar.

iii) Commodity Price Risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. To mitigate price risk, the Company closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

## 16. SUBSEQUENT EVENTS

Subsequent to the period end**:**

i) On September 25, 2014, the Company issued 3,386,078 units to Northern Fox Copper Inc. a subsidiary of Copper Fox Metals Inc., at a price of $0.07 per unit for total aggregate proceeds of $237,025 pursuant to the pre-emptive and non-dilution rights included in the letter agreement between Copper Fox and the Company as detailed in Note 13. Each unit consists of one common share and one share purchase warrant. Each warrant is exercisable into one common share at $0.09 until September 25, 2016.

Subsequent to the above issuance, Copper Fox indirectly controls approximately 42.09% of the issued common shares of the Company.

ii) On September 12, 2014 the Company granted 750,000 stock options at $0.10 to consultants of the Company. These options expire on September 12, 2016. The Company also cancelled 1,200,000 stock options previously granted in 2010 and 2011 to directors and officers of the Company.