



Adex Mining Inc.  
Consolidated Financial Statements  
December 31, 2013

## Management's Responsibility for Consolidated Financial Statements

The accompanying consolidated financial statements of Adex Mining Inc. (the "Company" or "Adex") are the responsibility of management and the Board of Directors.

The consolidated financial statements have been prepared by management, on behalf of the Board of Directors, in accordance with the accounting policies disclosed in the notes to the consolidated financial statements. Where necessary, management has made informed judgments and estimates in accounting for transactions, which were not complete at the balance sheet date. In the opinion of management, the consolidated financial statements have been prepared within acceptable limits of materiality and are in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

Management has established processes which are in place to provide it sufficient knowledge to support management representations that it has exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of, and for the periods presented by, the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date of and for the periods presented by the consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists the Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to the shareholders. The consolidated financial statements have been audited by PricewaterhouseCoopers LLC. Their report outlines the scope of their examination and opinion on the consolidated financial statements.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, and applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

DATED this April 3, 2014.

ADEX MINING INC.

Per: (signed) "Yan Kim Po"  
Name: Yan Kim Po  
Title: Chief Executive Officer

Per: (signed) "Doug Bolton"  
Name: Doug Bolton  
Title: Chief Financial Officer



April 3, 2014

## **Independent Auditor's Report**

### **To the Shareholders of Adex Mining Inc.**

We have audited the accompanying consolidated financial statements of Adex Mining Inc., which comprise the consolidated statements of financial position as at December 31, 2013 and December 31, 2012 and the consolidated statements of loss and comprehensive loss, cash flows and changes in equity for the years then ended, and the related notes, which comprise 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.

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**Opinion**

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Adex Mining Inc. as at December 31, 2013 and December 31, 2012 and their financial performance and their 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 matters and 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.

**(Signed) "PricewaterhouseCoopers LLP"**

**Chartered Professional Accountants, Licensed Public Accountants**

**ADEX Mining Inc.**  
**Consolidated Statements of Financial Position**

As at (In Canadian dollars)	December 31 2013 \$	December 31 2012 \$
<b>Assets</b>		
Current		
Cash and cash equivalents	321,754	2,716,664
HST & other receivables	122,778	208,490
Prepaid expenses	155,318	142,298
Interest receivable	-	39,339
	<b>599,850</b>	<b>3,106,791</b>
Non-current		
Funds held by Province of New Brunswick (note 4)	1,001,637	-
Exploration and evaluation (note 5)	12,227,818	10,906,129
Reclamation bonds (note 4)	-	930,013
Tailings impoundment facility (note 5)	675,744	663,468
Property, plant & equipment, net (note 6)	60,565	83,164
<b>Total Assets</b>	<b>14,565,614</b>	<b>15,689,565</b>
<b>Liabilities</b>		
Current		
Accounts payable & accruals (note 10)	752,120	345,241
Related party payable (note 11)	-	17,034
Income tax payable	157,607	33,806
<b>Total Liabilities</b>	<b>909,727</b>	<b>396,081</b>
<b>Shareholders' equity</b> (note 7)		
Share capital	51,169,336	51,169,336
Contributed surplus	2,770,582	2,770,582
Deficit	(40,284,031)	(38,646,434)
	<b>13,655,887</b>	<b>15,293,484</b>
<b>Total liabilities and shareholders' equity</b>	<b>14,565,614</b>	<b>15,689,565</b>

*The accompanying notes are an integral part of these consolidated financial statements*

*Nature of operations and going concern - note 1*

*Commitments and contingencies - note 10*

## ADEX Mining Inc.

### Consolidated Statements of Loss and Comprehensive Loss

For the year ended (In Canadian dollars)	December 31	
	2013	2012
	\$	\$
<b>Expenses</b>		
Administrative and general (notes 8 and 9)	1,285,225	1,275,623
Mineral property expenses	295,034	352,915
Stock-based compensation (note 7)	-	176,800
Depreciation (note 6)	2,758	2,122
<b>Total expenses</b>	<b>1,583,017</b>	<b>1,807,460</b>
Interest earned on funds on deposit	41,721	63,106
<b>Loss before income taxes</b>	<b>1,541,296</b>	<b>1,744,354</b>
Income taxes	96,301	-
<b>Net loss and comprehensive loss</b>	<b>1,637,597</b>	<b>1,744,354</b>
Weighted average number of shares outstanding	177,211,441	177,211,441
Basic and diluted loss per share	0.01	0.01

*The accompanying notes are an integral part of these consolidated financial statements*

**ADEX Mining Inc.**  
**Consolidated Statements of Cash Flows**

For the year ended (In Canadian dollars)	December 31	
	2013	2012
	\$	\$
<b>Operating activities</b>		
Net loss for the period	(1,637,597)	(1,744,354)
Items not affecting cash:		
Stock-based compensation	-	176,800
Depreciation of property, plant and equipment	24,274	50,042
Amortization of bond premium	13,049	21,996
	<b>(1,600,274)</b>	<b>(1,495,516)</b>
Change in non-cash working capital		
HST & other receivables	86,074	211,512
Prepaid expenses	(13,020)	79,745
Interest receivable	-	(2,199)
Income taxes payable	123,801	(106,526)
Related parties payable	(17,034)	(169,796)
Accounts payable & accruals	(115,363)	(270,413)
Cash used in operating activities	<b>(1,535,816)</b>	<b>(1,753,193)</b>
<b>Investing activities</b>		
Redemption of reclamation bonds	955,000	-
Additions to reclamation bonds	(38,398)	(73,104)
Increase in funds held by Province of New Brunswick	(962,298)	-
Additions to property, plant & equipment	(1,675)	(43,441)
Additions to mineral properties	(811,723)	(592,243)
Cash used in investing activities	<b>(859,094)</b>	<b>(708,788)</b>
<b>Financing activities</b>		
Finance lease payments	-	(17,400)
Cash used in financing activities	-	(17,400)
Change in cash and cash equivalents	<b>(2,394,910)</b>	<b>(2,479,381)</b>
Cash and cash equivalents, beginning of the period	<b>2,716,664</b>	<b>5,196,045</b>
<b>Cash and cash equivalents, end of the period</b>	<b>321,754</b>	<b>2,716,664</b>
<b>Cash and cash equivalents comprises:</b>		
Cash	3,655	36,227
Guaranteed investment certificate	318,099	2,680,437

*The accompanying notes are an integral part of these consolidated financial statements*

**ADEX Mining Inc.**  
**Consolidated Statements of Changes in Equity**

(In Canadian dollars)

	<b>Share capital</b>	<b>Contributed Surplus</b>	<b>Deficit</b>	<b>Total</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Balance, January 1, 2012</b>	51,169,336	2,593,782	(36,902,080)	16,861,038
Net loss and comprehensive loss	-	-	(1,744,354)	(1,744,354)
Stock option compensation expense	-	176,800	-	176,800
<b>Balance, December 31, 2012</b>	51,169,336	2,770,582	(38,646,434)	15,293,484
Net loss and comprehensive loss	-	-	(1,637,597)	(1,637,597)
<b>Balance, December 31, 2013</b>	51,169,336	2,770,582	(40,284,031)	13,655,887

*The accompanying notes are an integral part of these consolidated financial statements*



# **Adex Mining Inc.**

## ***Notes to the consolidated financial statements***

December 31, 2013

### **1. NATURE OF OPERATIONS AND GOING CONCERN**

Adex Mining Inc. (the "Company") holds 100% of the subsurface mineral rights to approximately 1,600 hectares encompassing the Mount Pleasant mine area of New Brunswick, Canada (the "Property" or "Mount Pleasant") where the Company is developing a potential polymetallic mine focusing on tin, indium, zinc, molybdenum and tungsten. Within the mineral rights area the Company owns approximately 405 hectares of land, plus the buildings, machinery and equipment on site which comprise the dormant Mount Pleasant mine. The Company is incorporated and domiciled in Canada and is a reporting issuer with its common shares publicly traded on the TSX-Venture exchange under the stock symbol "ADE". The principal head office of the Company is located at Suite 900, 67 Yonge Street, Toronto, Ontario, Canada M5E 1J8.

The Company has interests in resource properties which it is in the process of exploring and developing and has not yet determined whether these properties contain reserves that are economically recoverable. The recoverability of expenditures on resource properties, including deferred exploration expenditures, is dependent upon the existence of economically recoverable mineral reserves, the ability of the Company to obtain necessary financing to complete the exploration and development of the resource properties, and upon future profitable production or proceeds from the disposition thereof.

These consolidated financial statements of the Company have been prepared using accounting policies applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they fall due for the foreseeable future. For the year ended December 31, 2013, cash used in operations by the Company was \$1,535,816 and the Company carried an accumulated deficit of \$40,284,031. Furthermore, the Company had not generated revenue from operations.

The Company's current liabilities exceeded its current assets by \$309,877 as of December 31, 2013. These conditions indicate the existence of material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern and, accordingly, the ultimate appropriateness of the use of accounting principles applicable to a going concern. In view of these circumstances, the Company requires additional immediate financing to complete its planned exploration and evaluation program on the Mount Pleasant property, and will continue to explore financing alternatives to raise capital. There can be no assurance that the Company will be able to obtain adequate financing in the future or that such financing will be available on acceptable terms or that the Company will achieve profitable operation. See Note 14 regarding the short-term related party loan to the Company on January 28, 2014.

These consolidated financial statements do not reflect the adjustments to carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary if the going concern assumption was deemed inappropriate. These adjustments could be material.

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

These financial statements have been prepared in accordance with International Accounting Standards as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") in effect as of December 31, 2013.

These consolidated financial statements have been approved by the Board of Directors on April 3, 2014.

The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

#### **Accounting policy changes**

The Company has adopted the following new and revised standards, along with any consequential amendments, effective January 1, 2013. These changes were made in accordance with the applicable transitional provisions. IFRS 10, Consolidated Financial Statements, replaces the guidance on control and consolidation in IAS 27,

Consolidated and Separate Financial Statements, and SIC 12, Consolidation – Special Purpose Entities. IFRS 10 required consolidation of an investee only if the investor possesses power of the investee to affect its returns. Detailed guidance is provided on applying the definition of control. The accounting requirements for consolidation have remained largely consistent with IAS 27. The Company assessed its consolidation conclusions on January 1, 2013 and determined that the adoption of IFRS 10 did not result in any change in the consolidation status of any of its subsidiaries and investees.

IFRS 13, Fair Value Measurement, provides a single framework for measuring fair value. The measurement of the fair value of an asset or liability is based on assumptions that market participants would use when pricing the asset or liability under current market conditions, including the assumptions about risk. The Company adopted IFRS 13 on January 1, 2013 on a prospective basis. The adoption of IFRS 13 did not require any adjustments to the valuation techniques used by the Company to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

### **Basis of presentation**

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

In the preparation of these consolidated financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the year.

### **Principles of consolidation**

The consolidated financial statements include the accounts of the Company's wholly owned subsidiary Adex Minerals Corp. ("AMC"). All inter-company accounts and transactions have been eliminated on consolidation.

### **Segment reporting**

Operating segments are reported in a manner consistent with the internal reporting provided to the chief operating decision-maker. The chief operating decision-maker, who is responsible for allocating resources and assessing performance of the operating segments, has been identified as the Board of Directors that makes strategic decisions. The Company is deemed to have one segment for reporting being the operations at the Company's Mt. Pleasant project.

### **Foreign currency translation**

(a) Functional and presentation currency

Items included in the financial statements of each of the group's entities are measured using the currency of the primary economic environment in which the entity operates ('the functional currency'). The consolidated financial statements are presented in Canadian dollars, which is the Company's functional and presentation currency.

b) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of the transactions or valuation where items are re-measured. Foreign exchange gains and losses resulting from the settlement of such transactions and from the translation at year-end exchange rates of monetary assets and liabilities denominated in foreign currencies are recognized in the consolidated statements of loss and comprehensive loss.

### **Government assistance and investment tax credits**

Government assistance and investment tax credits are recorded as either a reduction of the cost of the applicable assets, or credited against the related expense incurred in the statement of operations, as determined by the terms and conditions of the agreements under which the assistance is provided to the Company or the nature of the expenditures which gave rise to the credits. Government assistance and investment tax credit receivables are recorded when their receipt is reasonably assured.

### **Property, plant & equipment**

Property, plant & equipment is carried at cost, less accumulated amortization and asset impairment losses. Computer equipment comprises computer hardware and is amortized on a straight-line basis over 24 months. Automobiles are amortized on a straight-line basis over 24 months. Facility refurbishments are amortized over the

estimated life span of the refurbished facility. Residual values, method of amortization and useful lives of the assets are reviewed annually and adjusted if appropriate.

### **Leases**

Leases that transfer substantially all of the benefits and risks of ownership to the Company are accounted for at the commencement of the lease term as finance leases and recorded as assets at the fair value of the leased asset, or, if lower, at the present value of the minimum lease payments, together with an offsetting liability. Finance charges are allocated to each period so as to achieve a constant rate of interest on the remaining balance of the liability and are charged directly against income. Capitalized leased assets are depreciated over the shorter of the estimated useful life of the asset or the lease term.

### **Environmental expenditures and rehabilitation**

The operations of the Company may, in the future, be occasionally affected by changes in environmental regulations, including those for future removal and site restoration costs. Both the likelihood of new regulations and their overall effect upon the Company vary greatly and are not predictable.

Environmental expenditures that relate to ongoing environmental and reclamation programs are charged against earnings as incurred. Estimated future removal and site restoration costs, when the ultimate liability is reasonably determinable, are charged against earnings over the estimated remaining life of the related business operation.

Provisions for environmental rehabilitation include decommissioning and restoration costs when the Company has an obligation to dismantle and remove infrastructure and residual materials as well as to restore the disturbed area. Estimated decommissioning and restoration costs are provided for in the accounting period when the obligation arising from the disturbance occurs based on the net present value of estimated future costs. The provision for environmental rehabilitation is reviewed and adjusted each period to reflect developments which could include changes in closure dates, legislation, discount rate or estimated future costs.

The amount recognized as a liability for environmental rehabilitation is calculated as the present value of the estimated future costs determined in accordance with local conditions and requirements. An amount corresponding to the provision is capitalized as part of property, plant and equipment and is depreciated over the life of the corresponding asset. The impact of amortization or unwinding of the discount rate applied in establishing the net present value of the provision is recognized in financing expense. The applicable discount rate is a pre-tax rate that reflects the current market assessment of the time value of money which is determined based on government bond interest rates and inflation rates.

Changes to estimated future costs are recognized in the consolidated statements of financial position by either increasing or decreasing the rehabilitation liability and rehabilitation asset if the initial estimate was originally recognized as part of an asset measured in accordance with IAS 16, "Property, Plant and Equipment". Any reduction in the rehabilitation liability and therefore any deduction from the rehabilitation asset may not exceed the carrying amount of that asset. If it does, any excess over the carrying amount is taken immediately to the income statement.

If the change in estimate results in an increase in the rehabilitation provision and therefore an addition to the carrying amount of the asset, the entity is required to consider whether the new carrying amount is recoverable, and if this is an indication of impairment of the asset as a whole. If indication of impairment of the asset as a whole exists, the Company tests for impairment in accordance with IAS 36, "Impairment of Assets". If the revised mine assets net of rehabilitation provisions exceeds the recoverable value that portion of the increase is charged directly to the income statement. For closed sites, changes to estimated costs are recognized immediately in the income statement. Where rehabilitation is conducted systematically over the life of the operation, rather than at the time of closure, provision is made for the estimated cost of outstanding rehabilitation work at each statement of financial position date and any increase in overall cost is expensed.

### **Impairment of non-financial assets**

The Company assesses the carrying amount of non-financial assets including property, plant and equipment at each reporting date to determine whether there is any indication of impairment. Internal factors, such as budgets and forecasts, as well as external factors, such as expected future prices, costs and other market factors are also monitored to determine if indications of impairment exist.

An impairment loss is the amount equal to the excess of the carrying amount over the recoverable amount. The

recoverable amount is the higher of value in use (being the net present value of expected pre-tax future cash flows of the relevant asset) and fair value less costs of disposal of the asset. The best evidence of fair value is a quoted price in an active market or a binding sale agreement for the same or similar asset. Where neither exists, fair value is based on the best information available to estimate the amount the Company could obtain from the sale of the asset in an arm's length transaction. This is often accomplished by using a discounted cash flow technique.

Impairment is assessed at the cash-generating unit (CGU) level. A CGU is the smallest identifiable group of assets that generates cash inflows largely independent of the cash inflows from other assets or group of assets. The assets of the corporate head office are allocated on a reasonable and consistent basis to CGUs or groups of CGUs. The carrying amounts of assets of the corporate head office that have not been allocated to a CGU are compared to their recoverable amounts to determine if there is any impairment loss.

If, after the Company has previously recognized an impairment loss, circumstances indicate that the fair value of the impaired assets is greater than the carrying amount, the Company reverses the impairment loss by the amount the revised fair value exceeds its carrying amount, to a maximum of the previous impairment loss. In no case shall the revised carrying amount exceed the original carrying amount, after depreciation or amortization, that would have been determined if no impairment loss had been recognized. An impairment loss or a reversal of an impairment loss is recognized in the consolidated statements of loss and comprehensive loss.

### **Exploration and evaluation expenditures**

The Company capitalizes exploration and evaluation expenditures. Exploration and evaluation expenditures include acquisition costs of mineral properties, property option payments and evaluation activity.

Once a project has been established as commercially viable and technically feasible, related development expenditures are capitalized. This includes costs incurred in preparing the site for mining operations. Capitalization ceases when the mine is capable of commercial production, with the exception of development costs that give rise to a future benefit.

The Company expenses mine site care and maintenance costs as incurred. Care and maintenance expenditures include site security, environmental monitoring and general repairs as required to ensure the property is safeguarded against loss and liability.

### **Provisions**

A provision is recognized when the Company has a present legal or constructive obligation as a result of a past event, it is probable that an outflow of economic benefits will be required to settle the obligation, and the amount of the obligation can be reliably estimated. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract. The Company had no material provisions at December 31, 2013.

### **Share based payments**

The Company has a stock option plan that is described in Note 7. The granting of stock options represents a benefit given to employees of the Company, which include others providing similar services, and non-employees and constitutes additional compensation to be borne by the Company.

Share based payments issued to employees are valued at the date of the grant using the Black Scholes option pricing model and are included in the Consolidated Statements of Loss and Comprehensive Loss over each tranche's vesting period and credited to the contributed surplus unless it can be directly attributed to exploration and evaluation activities, in which case it is deferred.

Share based payments issued to non-employees are valued at the fair value of the goods and services received, unless they cannot be reliably measured, then the Black Scholes option pricing model is used. The expense is included in the Consolidated Statements of Loss and Comprehensive Loss over each tranche's vesting period which represents the period over which the services have been received and credited to the contributed surplus unless it can be directly attributed to exploration and evaluation activities, in which case it is deferred.

Share based payments issued to other entities for acquisition of properties are valued at the bid price on the date of the agreement and included in equity on that day, where the fair value of the goods and services received could not be reliably measured.

### **Flow-through shares**

Proceeds from the issuance of flow-through shares are allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered. The allocation is made based on the difference between the quoted price of the common shares and the amount the investor pays for the flow-through shares.

The resource expenditure deductions for income tax purposes related to exploration and development activities funded by flow through share arrangements are renounced to investors in accordance with tax legislation. Under the liability method of accounting for income taxes, the deferred income tax liability related to the temporary difference arising at the earlier of renunciation and when the qualifying expenditures are incurred, are recorded at that time together with a corresponding recognition of the premium in the consolidated statements of loss and comprehensive loss.

### **Income taxes**

The income tax expense or benefit for the reporting period consists of two components: current and deferred taxes.

The current income tax payable or recoverable is calculated using the tax rates and legislation that have been enacted or substantively enacted at each reporting date in each of the jurisdictions and includes any adjustments for taxes payable or recoverable in respect of prior periods.

Current tax assets and liabilities are offset when they relate to the same jurisdiction, the entity has a legally enforceable right to offset and intends either to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred tax assets and liabilities are determined using the statement of financial position liability method based on temporary differences between the carrying amount of assets and liabilities for financial reporting purposes and their tax bases. In calculating the deferred tax assets and liabilities, the tax rates used are those that have been enacted or substantively enacted by each reporting date in each of the jurisdictions and that are expected to apply when the assets are recovered or the liabilities are settled. Deferred income tax assets and liabilities are presented as non-current.

Deferred tax liabilities are recognized on all taxable temporary differences, and deferred tax assets are recognized on all deductible temporary differences with the exception of the following items:

- Temporary differences associated with investments in subsidiaries, associates and interests in joint ventures where the Company is able to control the timing of the reversal of temporary differences and such reversals are not probable in the foreseeable future;
- Temporary differences associated with goodwill;
- Temporary differences that arise on the initial recognition of assets and liabilities in a transaction that is not a business combination and has no impact on either accounting profit or taxable profit; and
- Deferred tax assets are only recognized to the extent that it is probable that sufficient taxable profits exist in future periods against which the deductible temporary differences can be utilized.

The probability that sufficient taxable profits exist in future periods against which the deferred tax assets can be utilized is reassessed at each reporting date. The amount of deferred tax assets recognized is adjusted accordingly.

Deferred tax assets and liabilities are offset where they relate to income taxes levied by the same taxation authority and where the Company has the legal right to offset them.

Current and deferred taxes that relate to items recognized directly to equity are also recognized in equity. All other taxes are recognized in income tax expense in the consolidated statements of loss and comprehensive loss.

## Loss per share

Basic loss per share amounts are calculated by dividing net loss by the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated using the treasury method, which assumes that all outstanding stock option grants and warrants are exercised, if dilutive, and the assumed proceeds are used to purchase the Company's common shares at the average market price during the period.

## Cash and cash equivalents

Cash and cash equivalents represent cash and short-term deposits with original maturity dates of less than three months or which are readily convertible into known amounts of cash. Cash and cash equivalents at December 31, 2013 consists of bank deposits and a short term guaranteed investment certificate. Cash and cash equivalents as at December 31, 2013 includes cash equivalents of \$318,099 (December 31, 2012 \$2,680,437).

## Financial instruments

Financial instruments are defined as any contract that gives rise to a financial asset for one entity and a financial liability or equity instrument for another entity. The Company recognizes financial assets and financial liabilities when it becomes a party to the contractual provisions of the instrument.

Financial assets and liabilities are initially measured at fair value, plus, in the case of a financial asset of liability not at fair value through profit or loss, transaction costs directly attributable to the acquisition or issuance of the financial asset or liability. In a purchase or sale of financial assets, recognition and derecognition occurs when using trade date accounting or settlement date accounting.

Financial assets are subsequently measured after initial recognition at fair value, except for financial assets classified as held-to-maturity investments or loans and receivables, which are subsequently measured at amortized cost using the effective interest method.

Financial liabilities measured at fair value through profit or loss are subsequently measured after recognition at fair value. All other financial liabilities are subsequently measured at amortized cost using the effective interest method.

Financial assets are derecognized when:

- the contractual rights to the cash flows from the financial asset expire;
- the contractual rights to the cash flows from the financial asset are retained, but a contractual obligation to pay the cash flows to another party with material delay is assumed by the Company; or
- when the Company transfers substantially all the risks and rewards of ownership of the financial asset.

Financial liabilities are derecognized when the obligations are discharged, cancelled, or expire.

The Company has made the following classifications:

- Cash and cash equivalents and Funds held by the Province of New Brunswick are classified as loans and receivables and are measured at amortized cost. Receivables are classified as loans and receivables and are recorded at their initial fair values. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- Accounts payable and accrued liabilities and long-term debt are classified as other financial liabilities and are initially measured at their fair value. Subsequent measurements are recorded at amortized cost using the effective interest rate method.
- The Province of New Brunswick Reclamation bonds held at December 31, 2012 (see note 4) were classified as held to maturity and were measured at their purchase price inclusive of any premium or discount applicable to the market rate versus the prescribed 8.5% interest rate. Subsequent measurements were recorded at amortized cost using the effective interest rate method.

## Impairment of financial assets

The Company assesses at the end of each reporting period whether there is objective evidence that a financial asset or group of financial assets is impaired. A financial asset or a group of financial assets is impaired and impairment losses are incurred only if there is objective evidence of impairment as a result of one or more events that occurred after the initial recognition of the asset (a 'loss event') and that loss event (or events) has an impact on the estimated future cash flows of the financial asset or group of financial assets that can be reliably estimated.

For loans and receivables category, the amount of the loss is measured as the difference between the asset's carrying amount and the present value of estimated future cash flows (excluding future credit losses that have not been incurred) discounted at the financial asset's original effective interest rate. The carrying amount of the asset is reduced and the amount of the loss is recognized in the consolidated income statement. If a loan or held-to-maturity investment has a variable interest rate, the discount rate for measuring any impairment loss is the current effective interest rate determined under the contract. As a practical expedient, the group may measure impairment on the basis of an instrument's fair value using an observable market price.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized (such as an improvement in the debtor's credit rating), the reversal of the previously recognized impairment loss is recognized in the consolidated income statement.

### **Recent accounting pronouncements**

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2013, and have not been applied in preparing these consolidated financial statements. The following standards and interpretations have been issued by the IASB and the IFRIC Committees with effective dates relating to the annual accounting periods starting on or after the effective dates as follows:

IFRS 9, Financial Instruments, addresses the classification, measurement and recognition of financial assets and financial liabilities. IFRS 9 was issued in November 2009 and October 2010. It replaces parts of IAS 39 that related to the classification and measurement of financial instruments. IFRS 9 requires financial assets to be classified into two measurement categories: those measured at fair value and those measured at amortized cost. The determination is made at initial recognition. The classification depends on the entity's business model for managing its financial instruments and the contractual cash flow characteristics of the impairment. For financial liabilities, the standard retains most of the IAS 39 requirements. The main change is that, in cases where the fair value option is taken for financial liabilities, the part of the change due to an entity's own credit risk is recorded in other comprehensive income rather than the income statement, unless this creates an accounting mismatch. The Company is yet to assess IFRS 9's full impact. The Company will also consider the impact of the remaining phases of IFRS 9 when completed by the Board. The IASB has deferred the mandatory effective date for annual period beginning on or after January 1, 2015 and has left it open pending finalization of the impairment and classification and measurement requirements.

IFRIC 21, Accounting for Levies Imposed by Governments, clarifies that obligating events giving rise to a liability to pay a levy is the activity described in the relevant legislation that triggers payments of the levy. This standard is effective for annual periods beginning on or after January 1, 2014. The Company is still assessing the impact of this standard.

### **3. ESTIMATES**

The preparation of these consolidated financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The consolidated financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the consolidated financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and the revision affects both current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the balance sheet date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

#### ***Impairment of assets***

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of recoverable amount and fair value less costs of disposal. Determining the recoverable amount requires the Company to estimate expected future cash flows associated with the assets and a suitable discount rate in order to calculate present value. No impairment indicators of non-financial assets have been noted for the year ended December 31, 2013.

### ***Income taxes and recovery of deferred tax assets***

Deferred tax assets and liabilities are determined based on differences between the consolidated financial statement carrying values of assets and liabilities and their respective income tax bases (“temporary differences”), and losses carried forward.

The determination of the ability of the Company to utilize tax loss carry-forwards to offset deferred tax liabilities requires management to exercise judgment and make certain assumptions about the future performance of the Company. Management is required to assess whether it is “probable” that the Company will benefit from these prior losses and other deferred tax assets. Changes in economic conditions, metal prices and other factors could result in revisions to the estimates of the benefits to be realized or the timing of utilizing the losses.

Management did not recognize deferred tax assets in excess of deferred tax liabilities as future taxable profits are not expected until the Company reaches technical feasibility and commercial viability of the extraction of the mineral resources, the timing of which is uncertain as the Company is still in the exploration and evaluation stage.

### ***Provision for environmental rehabilitation***

Part of the land on which the Mount Pleasant property is located includes a dormant mine. The Company is obliged to comply with an environmental reclamation plan which is in effect for the property and is required to monitor the water quality at its Tailings Impoundment Facility on a monthly basis, and provide the Ministry of Environment with monthly water quality monitoring reports and the results of water sampling and testing, and in perpetuity, to treat the water run-off. As the Company’s activities currently don’t affect the nature and amount of this run-off, the Company treats these costs as a period expense and has made no provision for this on-going activity.

## **4. RECLAMATION BONDS AND ASSET RETIREMENT OBLIGATIONS**

The land on which the Mount Pleasant property is located includes a dormant mine. The Company is obliged to comply with an environmental reclamation plan which is in effect for the property. This obligation is secured by a form of lien titled “collateral mortgage” to the Province of New Brunswick for \$2 million on 22 hectares of land on which the mine site and primary buildings are located.

Reclamation bonds consisted of Province of New Brunswick, 8.5% bonds which matured June 28, 2013. The bonds were pledged as security under environmental regulations with the Province of New Brunswick to ensure adequate funding is available for perpetuity to treat the acid water run-off from the abandoned Mount Pleasant mine workings. The bonds were held for the benefit of the Company, and interest was paid bi-annually into a cash on deposit account, and was disbursed at the discretion of the Ministry of Finance of the Province of New Brunswick. Upon maturity of the bonds at June 28, 2013, the funds continue to be held on account with the N.B government and will be redeployed as per the requirements of the Department of Environment.

The Company’s Mount Pleasant property is governed by an Approval to Operate, which was granted by the New Brunswick Ministry of Environment in November 2007 and was valid until September 2012. The approval to operate was renewed as of October 1, 2012 and is valid until September 30, 2017. Under the terms of the Approval to Operate, the Company has been granted permission by the Ministry of Environment to operate the Property, Tailings Impoundment Facility and Mine Water Treatment Plant on a “Care and Maintenance” basis and the Company is also required to submit an environmental effects monitoring report to the Province of New Brunswick no later than December 31, 2014. However, the Company is required to monitor the water quality at its Tailings Impoundment Facility on a monthly basis, and the Company provides the Ministry of Environment with monthly water quality monitoring reports and the results of its monthly water sampling and testing. On March 28, 2013, the Company met the requirement to submit to the Department a mine water management plan including a cost report on this new facility, a tailings flood plan and contingency plan, and a new sludge cell project proposal and timeline to complete. The plan also sets out parameters for the operation of the new mine water treatment facility to be approved and constructed, and the parameters for the operation of the tailings impoundment facility which already exists. These new plans are to be accompanied by an updated requirement to post a rehabilitation bond, which may or may not exceed the bond currently posted by Adex for this purpose.

Under the Approval to Operate, the Company is permitted to carry out exploration activities and metallurgical test work on its Mount Pleasant property. Consequently, the current security posted with the Province of New Brunswick is sufficient for the Company to continue exploration activities and metallurgical test work at the Property. However,



the Company may face a review of its posted security by the Ministry of Environment when the Company advances to feasibility studies on its mineral deposits or commences the dewatering of the past-producing underground tungsten mine located on the Mount Pleasant property. Dewatering activities may also trigger a provincial Environmental Impact Assessment (“EIA”) and may require the Company to upgrade its current Mine Water Treatment Plant. The Company will, therefore, enter into direct consultations with the provincial Ministry of Environment prior to initiating feasibility or dewatering activities, in order to ascertain any changes that may be required with respect to the existing security, or any obligations that may arise under a EIA.

## 5. EXPLORATION AND EVALUATION

<b>Mount Pleasant Property, New Brunswick</b>	Exploration & evaluation \$	Tailings impoundment facility upgrade \$	Total \$
Balance, January 1, 2012	10,332,831	644,523	10,977,354
Additions	573,298	18,945	592,243
Balance, December 31, 2012	10,906,129	663,468	11,569,597
Additions	1,321,689	12,276	1,333,965
Balance, December 31, 2013	12,227,818	675,744	12,903,562

The Company holds a 100% interest in the subsurface mineral rights to the Mount Pleasant mine area. Current period expenditures to December 31, 2013 are expenses related to the current mine exploration and evaluation program. Tailings Impoundment Facility expenditures to date relate to the rehabilitation of the Mount Pleasant Tailings Impoundment Facility in order to comply with government regulations, and in anticipation of future production requirements.

## 6. PROPERTY PLANT AND EQUIPMENT

<b>Cost</b>	Equipment & Facility refurbishments \$	Computer equipment \$	Automobiles \$	Total \$
Balance as at January 1, 2012	126,342	60,188	28,654	215,184
Additions	16,161	4,436	22,844	43,441
Balance as at December 31, 2012	142,503	64,624	51,498	258,625
Additions	-	1,675	-	1,675
Balance as at December 31, 2013	142,503	66,299	51,498	260,300

<b>Accumulated depreciation</b>	Equipment & Facility refurbishments \$	Computer equipment \$	Automobiles \$	Total \$
Balance as at January 1, 2012	76,330	35,628	22,654	134,612
Depreciation for the year	8,372	24,573	7,904	40,849
Balance as at December 31, 2012	84,702	60,201	30,558	175,461
Depreciation for the year	9,466	3,386	11,422	24,274
Balance as at December 31, 2013	94,168	63,587	41,980	199,735

<b>Carrying amounts</b>	Equipment & Facility refurbishments \$	Computer equipment \$	Automobiles \$	Total \$
As at January 1, 2012	50,012	24,560	6,000	80,572
As at December 31, 2012	57,801	4,423	20,940	83,164
As at December 31, 2013	48,335	2,712	9,518	60,565

For the year ended December 31, 2013, the amount of amortization charged to mineral property expense is \$21,516 (\$38,727 for the year ended December 31, 2012).

## 7. SHAREHOLDERS' EQUITY

### Share Capital

The Company is authorized to issue an unlimited number of common shares and an unlimited number of preference shares. As at December 31, 2013, the Company had 177,211,441 common shares, of no par value, issued and outstanding.

	Number of shares	Amount \$
Balance, January 1 and December 31, 2012, and December 31, 2013	177,211,441	51,169,336

- (a) On October 19, 2010 the Company completed a private placement (the "Private Placement") transaction with Great Harvest Canadian Investment Company Limited ("Great Harvest") of 40,000,000 units (the "Units") at a price of \$0.12 per unit, with each Unit consisting of one common share of Adex and one common share purchase warrant (a "Series A Warrant"), raising gross proceeds of \$4.8 million. On May 17, 2011, 40,000,000 Series A warrants were exercised, providing gross proceeds of \$7,200,000.

Other transactions contemplated in the Private Placement agreement with Great Harvest include requiring Great Harvest, subject to (i) the results of the definitive feasibility study ("DFS") being satisfactory to Great Harvest and (ii) the then capital requirements of the Company as determined at the relevant time by the board of directors of the Company, to provide or arrange for the provision to the Company of loan facilities (the "Facilities") in an aggregate amount of up to \$50,000,000 to be used for the commercial development of the Property, on such terms and conditions as may be agreed upon between the Company and the relevant financier(s). If an aggregate minimum of \$10 million of the Facilities are made available to be drawn down by the Company within 180 days of the delivery to Great Harvest of the report of the results of the Feasibility Study, Great Harvest will have the right (the "Share Purchase Right") to purchase, within 40 days of the Facilities being available to be drawn down by the Company, 1.2 common shares for each dollar of the facilities made available to be drawn down by the Company within one year of the completion of the Feasibility Study. The exercise price per common share pursuant to the Share Purchase Right will be equal to the volume weighted average trading price of the common shares on the TSX Venture Exchange (the "TSXV") for the five trading days ending the day immediately prior to the Facilities being available to be drawn down by the Company less the maximum discount there from permitted by the TSXV. The maximum number of common shares issuable pursuant to the Share Purchase Right is 60,000,000. The issuance of common shares pursuant to the exercise of the Share Purchase Right will be subject to further approval of the TSXV to be obtained following the Share Purchase Right becoming exercisable.

In connection with the above Private Placement, the agent to the transaction will be paid by the Company an additional cash finder's fee equal to 1.5% of the principal amount of each loan made available by Great Harvest or a third party financier arranged for by Great Harvest to be drawn down by the Company, to a maximum of \$750,000.

### Contributed Surplus

	Amount \$
Balance, January 1, 2012	2,593,782
Common share options expense	176,800
Balance, December 31, 2012 and December 31, 2013	2,770,582

## Stock options

On April 26, 2007, the shareholders approved a rolling stock option plan (the "Stock Option Plan") for the Company. The Stock Option Plan has been re-approved annually.

The Stock Option Plan allows the Company to issue options to a maximum of 10% of the issued and outstanding common shares of the Company. Options will be exercisable over periods of up to ten years as determined by the Board. Options are required to have an exercise price of no less than the closing market price of the common shares of the Company on the last trading day immediately preceding the date of the grant of the stock option less any discounts from the market price allowed by the TSVX.

(a) On December 31, 2013, the Company granted 4,700,000 common share options with an exercise price of \$0.10 per common share to the directors of the Company. The options vest quarterly in equal amounts over a twelve month period from the date of the grant and expire on December 31, 2018.

The assigned Black-Scholes fair value of the options granted is \$63,381.

The following summary sets out the activity in outstanding common share stock options for the year ended December 31, 2013:

	Options #	Weighted- average exercise price \$
Outstanding, December 31, 2011	11,710,000	0.22
Options expired unexercised	(4,860,000)	0.27
Outstanding, December 31, 2012	6,850,000	0.17
Options issued December 2013	4,700,000	0.05
Options expired unexercised	(1,200,000)	0.30
Options forfeited	(630,000)	0.17
<b>Outstanding, December 31, 2013</b>	<b>9,720,000</b>	<b>0.097</b>
<b>Options exercisable at December 31, 2013</b>	<b>5,020,000</b>	<b>0.142</b>

The details of stock options outstanding at December 31, 2013 are as follows:

Number of stock options	Number exercisable	Remaining contractual life	Exercise price per share	Expiry date
950,000	950,000	0.31 years	\$0.120	April 24, 2014
1,100,000	1,100,000	1.10 years	\$0.150	February 3, 2015
200,000	200,000	1.47 years	\$0.120	June 22, 2015
2,350,000	2,350,000	2.63 years	\$0.150	August 15, 2016
250,000	250,000	2.72 years	\$0.130	September 18, 2016
170,000	170,000	2.80 years	\$0.145	October 17, 2016
4,700,000	-	5.00 years	\$0.100	December 31, 2018
<b>9,720,000</b>	<b>5,020,000</b>			

Options that have been issued and remain outstanding vest over one year from the date of grant, in equal quarterly installments commencing three months following the date of grant.

The weighted average fair value of the options outstanding is \$0.0975 per option. The fair value of the options granted in 2013 have been estimated at the date of grant using the Black-Scholes pricing model with the following assumptions: risk-free weighted-average interest rate ranging from 1.63% and based on the full life of the option of 5 years, expected dividend yield of nil, expected forfeiture rate of nil, expected volatility of 99.96% and based on the annualized, weekly stock price calculated over the previous common share trading history, equal to the life of the option and expected life term of five years. Under this method of calculation, the Company has recorded nil as stock-based compensation, being the fair value of the options vested during year ended December 31, 2013 (\$176,800 for the year ended December 31, 2012).

## 8. ADMINISTRATIVE AND GENERAL EXPENSES

The following table illustrates spending activity related to administrative and general expenses for the year ended December 31, 2013:

	For the year ended	
	December 31	
	2013	2012
	\$	\$
Wages, benefits and consulting (note 9)	447,573	518,115
Professional fees (legal & audit)	272,021	195,455
Directors fees (note 9)	179,400	187,254
Shareholder communications & promotion	96,049	127,647
Travel	68,885	93,622
Office rent	82,845	51,883
Office costs	36,036	37,578
Insurance	27,338	28,225
Business development	21,400	18,300
Regulatory and filing fees	19,828	17,544
Interest and penalties	33,850	-
	1,285,225	1,275,623

## 9. RELATED PARTY TRANSACTIONS AND KEY MANAGEMENT PERSONNEL REMUNERATION

### Key management personnel remuneration

Key management personnel remuneration is comprised of the Company's President & Chief Executive Officer, Chief Financial Officer and (for the period January 1 to June 30, 2012) Chief Operating Officer.

For the year ended December 31, 2013 the Company incurred related party expenses of \$245,124 (\$352,399 during the December 31, 2012). These expenses related to the payment of wages, benefits and consulting fees to the Company's senior officers.

During the year ended December 31, 2011, the Company created a retirement allowance accrual of \$525,000 (nil for year ended December 31, 2012) to be paid out to retiring senior personnel, pending the resolution of the terms of the retirement agreements. During the year ended December 31, 2011, the Company paid out \$450,000 to a former member of senior management and, at December 31, 2013, \$75,000 remains on hand for future settlement, and final settlement negotiations are ongoing.

Included in stock-based compensation for the year ended December 31, 2013 is nil (\$57,252 for the year ended December 31, 2012) attributable to key management personnel.

### Related party transactions

During the year ended December 31, 2013, the Company incurred directors' fees of \$179,400 (directors fees of \$187,254 during the year ended December 31, 2012). These amounts were expensed in the period incurred as administrative and general expenses.

During the year ended December 31, 2013, the Company incurred and paid technical and consulting fees of \$24,647 (\$10,800 for year ended December 31, 2012) to independent directors. These amounts were expensed in the period incurred as administrative and general expenses.

Included in stock-based compensation for the year ended December 31, 2013 is nil (\$101,821 for the year ended December 31, 2012) attributable to related parties.

Great Harvest, the Company's largest shareholder with 45.14% of the Company's common shares, is controlled by two of the Company's directors, one of whom also acts as the President and Chief Executive Officer. During the year ended December 31, 2013, the Company incurred expenses of \$5,666 (\$31,721 for the year ended December 31, 2012) from Great Harvest for travel, administrative and project expenses.

All balances due to related parties bear no interest and have no fixed terms of repayment.

All transactions with related parties are in the normal course of business and recorded at fair value.

## 10. ACCOUNTS PAYABLE AND ACCRUALS AND COMMITMENTS AND CONTINGENCIES

As at	December 31 2013	December 31 2012
	\$	\$
Accounts payable	524,708	183,381
Accrued liabilities	227,412	161,860
Income tax payable	157,607	33,806
Related party payable	-	17,034
	<b>909,727</b>	<b>396,081</b>

The Company has a contractual lease obligation related to its corporate premises that requires minimum total lease payments of \$159,861 until October 31, 2017.

The following table demonstrates the outstanding office lease commitment.

	\$
2014	39,746
2015	41,500
2016	42,084
2017	36,531
	<b>159,861</b>

The Company has contingent liabilities in respect of legal claims arising in the ordinary course of business. The Company is currently engaged in a legal proceeding in respect of the settlement of severance payment to a former employee. The Company has accrued \$75,000 in regards to settlement of this matter, however, the timing of the resolution of this matter, as well as the final settlement amount is uncertain and cannot be determined as at December 31, 2013.

## 11. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

### Categories of financial assets and liabilities

The Company's financial instruments are classified into the following categories: loans and receivables, held to maturity and other financial liabilities. The carrying values of the Company's financial instruments are classified into the following categories:

	December 31, 2013		December 31, 2012	
	Carrying value	Fair Value	Carrying value	Fair Value
	\$	\$	\$	\$
Loans and receivables <sup>(1)</sup>	1,446,169	1,446,169	2,964,493	2,964,493
Held to maturity <sup>(2)</sup>	-	-	930,013	930,013
Other financial liabilities <sup>(3)</sup>	752,120	752,120	362,275	362,275

(1) Consists of cash and cash equivalents, funds held by the Province of New Brunswick, accounts receivable and interest receivable.

(2) Reclamation bond

(3) Includes accounts payable and accruals.

The fair values of the Company's financial instruments are not materially different from their carrying value.

#### Risks arising from financial instruments and risk management

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the financial performance of the Company.

The Company uses various methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks.

#### **(a) Market risk**

##### *(i) Interest rate risk*

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Company's interest rate risk is minimal as there are no outstanding loans or interest-bearing debts. The Company has not entered into any interest rate swaps or other active interest rate management programs at this time. A change in interest rates would have no effect on the value of, and/or the proceeds from, the Company's reclamation bond or amounts due from the Province of New Brunswick as it has a fixed interest rate.

##### *(ii) Sensitivity analysis*

IFRS requires disclosure of a sensitivity analysis that is intended to illustrate the sensitivity of the Company's financial position, performance and fair value of cash flows associated with the Company's financial instruments to changes in market variables. The sensitivity analysis discloses the possibility of an effect on the reported loss at December 31, 2013 assuming that a reasonably possible change in the relevant risk variable has occurred at December 31, 2013 and has been applied to the risk exposures in existence at that date to show the effects of reasonably possible changes. The reasonably possible changes in market variables used in the sensitivity analysis were determined based on implied volatilities (where available) or historical data.

The Company does not hold any investments, other than cash, subject to variable interest, therefore any changes in interest rates will not give rise to significant changes to the net loss.

The Company does not hold any assets in foreign currency, nor has significant foreign currency liabilities, therefore any changes in foreign exchange rates will not give rise to significant changes to the net loss.

At December 31, 2013, a change in the value of tungsten, molybdenum, tin, indium or zinc would not change the recognized value of any of the Company's financial instruments.

#### **(b) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the Company. Credit risk arises from cash and cash equivalents and deposits with banks and financial institutions as well as credit exposures to outstanding receivables. The Company endeavours to mitigate credit risk by holding its cash and cash equivalents with major commercial banks with strong credit ratings.

The carrying amounts of financial assets recorded in the financial statements represent the Company's maximum exposure to credit risk.

#### **(c) Liquidity risk**

The Company's approach to managing liquidity risk is to ensure that it will have sufficient funds to meet liabilities as they come due and to execute on its business plan. The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. At December 31, 2013, the Company had a cash and cash equivalent balance of \$321,754 (December 31, 2012 – \$2,716,664). The Company has forecasted cash flows for its 2014 fiscal year. The forecast is based on management's best estimates of operating

conditions in the context of current economic conditions and today's capital market climate.

The Company is a development stage company currently focused on exploring and developing its Mount Pleasant Property and has not generated revenue or cash flow from this project. The Company's sole source of funding to this point has been the issuance of equity securities. The Company has limited financial resources and no current source of recurring revenue and continues to rely on the issuance of shares or other sources of financing to generate the funds required to complete the development, commissioning and commencement of production of the Mount Pleasant property and corporate expenditures. Should additional funding be required to complete the construction, commissioning or operations of the Mount Pleasant property there is no assurance that such additional funding will be available to the Company. Should such funding be required, failure to obtain funding could result in delay or indefinite postponement of the development of the Mount Pleasant property. See Note 14 regarding the short-term related party loan to the Company on January 28, 2014.

#### **(d) Fair value estimation**

The fair value of financial assets and financial liabilities must be estimated for recognition and measurement or for disclosure purposes. For receivables and payables with a remaining life of less than one year, the notional amount is deemed to reflect the fair value.

#### **(e) Commodity price and exchange rate fluctuations**

The feasibility of mineral exploration is significantly affected by changes in the market price of the minerals expected to be produced. Mineral prices fluctuate widely and are affected by numerous factors beyond the Company's control. The level of interest rates, the rate of inflation, world supply of minerals and stability of exchange rates can all cause significant fluctuations in mineral prices. Such external economic factors are in turn influenced by changes in international investment patterns, monetary systems and political developments.

### **12. MANAGEMENT OF CAPITAL**

The Company's objective when managing capital is to maintain adequate levels of funding to support evaluation and development projects, to expand regional exploration activities within the Property and to maintain corporate and administrative functions. At December 31, 2013 the Company's capital consists of equity in the amount of \$13,655,887 (December 31, 2012 - \$15,293,484).

The Company manages its capital structure in a manner that provides sufficient funding for project evaluation and development and operational activities. Funds are primarily secured through the issue and sale of common shares. There can be no assurances that the Company will be able to continue to provide adequate funds in this manner.

The Company maintains minimal surplus capital and therefore does not have significant non-cash investments. All working capital for immediate needs is invested in liquid and highly rated financial instruments, such as money market funds with major Canadian financial institutions. The total cash and cash equivalents on hand at December 31, 2013 is \$321,754 (\$2,716,664 at December 31, 2012).

### **13. INCOME TAXES**

The major components of income tax expense for the years ended December 2013 and 2012 are:

#### **Consolidated statement of comprehensive income**

The major components of the income tax expense are as follows:

	<b>2013</b>	<b>2012</b>
	<b>\$</b>	<b>\$</b>
Current income tax	<b>96,301</b>	-
Deferred income tax	-	-
<b>Income tax expense</b>	<b>96,301</b>	-

A reconciliation between tax expense and the product of accounting profit multiplied by the Company's domestic tax rate for the years ended December 31, 2013 and December 31, 2012 is as follows:

	2013 \$	2012 \$
<b>Accounting loss before income tax</b>	<b>1,541,296</b>	<b>1,744,354</b>
Canadian statutory income tax rate	<b>26.50%</b>	<b>26.50%</b>
	<b>408,443</b>	<b>462,254</b>
Stock based compensation	-	<b>(46,852)</b>
Transitional tax debit	<b>96,301</b>	
Tax effect of unrecognized temporary differences	<b>(408,443)</b>	<b>(415,402)</b>
<b>Total income tax expense (recovery)</b>	<b>96,301</b>	<b>-</b>

The tax benefit of the following unused tax losses and deductible temporary differences have not been recognized in the financial statements due to the unpredictability of future earnings.

	December 31, 2013 \$	December 31, 2012 \$
Deductible temporary differences		
Non-capital losses carried forward	<b>13,555,000</b>	9,260,000
Share issuance costs	<b>340,000</b>	595,000
	<b>13,895,000</b>	9,855,000

At December 31, 2013, the Company has share issuance expenses of approximately \$340,000 (December 31, 2012 - \$595,000) deductible from 2014 to 2015 and Canadian non-capital losses of approximately \$13,555,000 (December 31, 2012 - 11,206,000) expiring as follows:

	\$
2014	116,000
2015	386,000
2026	391,000
2027	1,572,000
2028	2,057,000
2029	1,273,000
2030	1,724,000
2031	2,553,000
2032	1,763,000
2033	1,720,000
	<b>13,555,000</b>

#### 14. SUBSEQUENT EVENT

On January 28, 2014, Great Harvest and the Company entered into a loan agreement whereby Great Harvest extended a loan to the Company in the amount of US\$1,000,000. The loan is unsecured and bears interest at the rate of 8% per annum. The loan and interest become due and payable on January 28, 2015.