



NICKEL NORTH EXPLORATION

**NICKEL NORTH EXPLORATION CORP.**

FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013 AND  
THE NINE MONTHS ENDED DECEMBER 31, 2012



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## **INDEPENDENT AUDITORS' REPORT**

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To the Shareholders of  
Nickel North Exploration Corp.

We have audited the accompanying financial statements of Nickel North Exploration Corp. which comprise the statements of financial position as at December 31, 2013 and 2012, and the statements of comprehensive income (loss), changes in equity and cash flows for the year ended December 31, 2013 and for the nine months ended December 31, 2012, and the related notes comprising 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 as issued by the International Accounting Standards Board, 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.

### **Auditors' 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 audits 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 our 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, we consider 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 Nickel North Exploration Corp. as at December 31, 2013 and 2012, and its financial performance and cash flows for the year ended December 31, 2013 and for the nine months ended December 31, 2012 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

### **Emphasis of Matter**

Without qualifying our opinion, we draw attention to Note 2 in the financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the ability of Nickel North Exploration Corp. to continue as a going concern.

*Manning Elliott LLP*

CHARTERED ACCOUNTANTS  
Vancouver, British Columbia  
April 28, 2014

**NICKEL NORTH EXPLORATION CORP.**  
**STATEMENTS OF FINANCIAL POSITION**  
**AS AT DECEMBER 31, 2013 AND 2012**  
(Expressed in Canadian Dollars)

	Note	December 31, 2013	December 31, 2012
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	4	\$ 1,124,184	\$ 97,595
Sales tax recoverable and other receivables		1,266,588	263,633
Prepaid expenses and deposits		16,431	13,448
Restricted cash	5	28,750	28,750
		2,435,953	403,426
<b>Non-current assets</b>			
Equipment	6	3,483	2,543
Exploration and evaluation assets	7	8,791,475	3,541,221
<b>Total assets</b>		<b>\$ 11,230,911</b>	<b>\$ 3,947,190</b>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Accounts and other payables	8	\$ 204,451	\$ 132,624
Flow-through share premium liability	11	332,537	50,092
<b>Total current liabilities</b>		<b>536,988</b>	<b>182,716</b>
Deferred income tax liabilities	15	630,315	-
<b>Total liabilities</b>		<b>1,167,303</b>	<b>182,716</b>
<b>Equity</b>			
Share capital	11	9,967,079	5,054,809
Contributed surplus		736,112	165,298
Deficit		(639,583)	(1,455,633)
<b>Total equity</b>		<b>10,063,608</b>	<b>3,764,474</b>
<b>Total liabilities and equity</b>		<b>\$ 11,230,911</b>	<b>\$ 3,947,190</b>

**Going Concern** (Note 2)

**Subsequent Event** (Note 17)

The financial statements were authorized for issue by the board of directors on April 28, 2014 and were signed on its behalf by:

“Jingbin Wang”

Director

“Richard Barclay”

Director

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

**NICKEL NORTH EXPLORATION CORP.**  
**STATEMENTS OF COMPREHENSIVE INCOME (LOSS)**  
**FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE NINE MONTHS ENDED DECEMBER 31, 2012**  
(Expressed in Canadian Dollars)

	Note	Year Ended December 31, 2013	Nine Months Ended December 31, 2012
<b>EXPENSES</b>			
Accounting and audit		\$ 35,000	\$ 35,900
Bank charges and interest		6,096	7,771
Consulting fees	12	327,841	250,183
Depreciation		1,636	230
Legal		63,163	61,217
Media and conference		6,796	1,623
Office administration and miscellaneous		82,586	65,920
Share-based payments	11	1,199	142,889
Transfer agent and filing fees		39,984	23,755
Travel and promotion		94,795	131,769
Wages and benefits		140,200	22,792
		(799,296)	(744,049)
<b>OTHER ITEMS</b>			
Interest and other income		28,106	15,516
Settlement of flow-through premium liability	11	2,217,555	-
		2,245,661	15,516
<b>Net income (loss) before income taxes</b>		1,446,365	(728,533)
Deferred income tax expense	15	630,315	-
<b>Net and comprehensive income (loss) for the period</b>		\$ 816,050	\$ (728,533)
<b>Basic and diluted income (loss) per common share</b>	11	\$ 0.02	\$ (0.04)
<b>Weighted average number of common shares outstanding</b>		53,687,881	20,588,606

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

**NICKEL NORTH EXPLORATION CORP.**  
**STATEMENTS OF CHANGES IN EQUITY**  
(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Share Subscription Proceeds	Contributed Surplus	Deficit	Total
Balance, April 1, 2012	4,260,790	\$ 385,471	\$ 245,500	\$ 30,018	\$ (727,100)	\$ (66,111)
Comprehensive loss for the period	-	-	-	-	(728,533)	(728,533)
Non-flow-through private placements	19,860,000	3,177,000	(245,500)	-	-	2,931,500
Flow-through private placements	2,504,600	500,920	-	-	-	500,920
Shares-for-debt settlement	1,072,983	214,597	-	-	-	214,597
Shares issued for exploration and evaluation assets	4,902,032	917,906	-	-	-	917,906
Exercise of stock options	320,000	54,871	-	(22,871)	-	32,000
Share issuance costs	-	(180,694)	-	-	-	(180,694)
Agent's warrants issued	-	(15,262)	-	15,262	-	-
Share-based payments	-	-	-	142,889	-	142,889
Balance, December 31, 2012	32,920,405	5,054,809	-	165,298	(1,455,633)	3,764,474
Comprehensive income for the year	-	-	-	-	816,050	816,050
Non-flow-through private placements	8,000,000	1,440,000	-	560,000	-	2,000,000
Flow-through private placements	16,666,667	2,500,000	-	-	-	2,500,000
Shares issued for exploration and evaluation assets	8,131,675	1,159,751	-	-	-	1,159,751
Share issuance costs	-	(177,866)	-	-	-	(177,866)
Agent's warrants issued	-	(9,615)	-	9,615	-	-
Share-based payments	-	-	-	1,199	-	1,199
Balance, December 31, 2013	65,718,747	\$ 9,967,079	\$ -	\$ 736,112	\$(639,583)	\$ 10,063,608

The accompanying notes are an integral part of these financial statements

**NICKEL NORTH EXPLORATION CORP.**  
**STATEMENTS OF CASH FLOWS**  
**FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE NINE MONTHS ENDED DECEMBER 31, 2012**  
(Expressed in Canadian Dollars)

	Year Ended December 31, 2013	Nine Months Ended December 31, 2012
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net income (loss) for the period	\$ 816,050	\$ (728,533)
Items not affecting cash:		
Depreciation	1,636	230
Settlement of flow-through premium liability	(2,217,555)	-
Deferred income tax expense	630,315	-
Share-based payments	1,199	142,889
Changes in non-cash working capital items:		
Sales tax recoverable and other receivables	(1,002,956)	(261,045)
Prepaid expenses and deposits	(2,983)	(12,048)
Account and other payables	(10,370)	20,520
Net cash used in operating activities	(1,784,664)	(837,987)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Exploration and evaluation assets	(4,008,306)	(2,623,315)
Purchase of equipment	(2,575)	(2,773)
Net cash used in investing activities	(4,010,881)	(2,626,088)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Loan received from a related party	300,000	320,000
Repayment of the related party loan	(300,000)	(320,000)
Restricted cash	-	(28,750)
Repayment of loans payable	-	(5,811)
Proceeds from shares issued for cash	7,000,000	3,482,512
Exercise of stock options	-	32,000
Share issuance costs	(177,866)	(167,693)
Net cash provided by financing activities	6,822,134	3,312,258
<b>Change in cash and cash equivalents during the period</b>	<b>1,026,589</b>	<b>(151,817)</b>
<b>Cash and cash equivalents, beginning of the period</b>	<b>97,595</b>	<b>249,412</b>
<b>Cash and cash equivalents, end of the period</b>	<b>\$ 1,124,184</b>	<b>\$ 97,595</b>

Supplemental cash flow information (Note 13)

The accompanying notes are an integral part of these financial statements

# **NICKEL NORTH EXPLORATION CORP.**

## **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE NINE MONTHS ENDED DECEMBER 31, 2012**

(Expressed in Canadian Dollars)

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### **1. NATURE OF BUSINESS**

Nickel North Exploration Corp. (formerly Orient Venture Capital Inc.) (the “Company”) was incorporated under the laws of British Columbia, Canada on February 27, 2007 as Orient Ventures Capital Inc. and changed its name to Nickel North Exploration Corp. on July 30, 2012. The Company maintains its registered and head office at Suite 3114, 1055 Dunsmuir Street, Vancouver, British Columbia, Canada, V7X 1G4. On December 10, 2012, the Company changed its fiscal year-end from March 31 to December 31.

The Company was classified as a Capital Pool Company (“CPC”) as defined under TSX Venture Exchange (TSX-V) Policy 2.4 *Capital Pool Companies* (“Policy 2.4”). On August 2, 2012, the Company completed its Qualifying Transaction (“QT”) as defined under TSX-V Policy 2.4 and as such, the Company graduated from being a CPC to a Tier 2 mining issuer on the TSX-V. The Company is currently engaged in the acquisition, exploration, and development of mineral property interests in Canada. The Company’s common shares are listed on the TSX-V under the symbol “NNX”.

### **2. BACKGROUND AND BASIS OF PREPARATION**

#### **Qualifying transaction**

On August 2, 2012, the Company completed its QT by entering into an option agreement dated March 29, 2012 and amended on May 15, 2012 with Anthem Resources Incorporated (“Anthem”) and 662707 Alberta Ltd., a wholly-owned subsidiary of Anthem (together the “Optionors”), whereby the Optionors granted the Company the sole and exclusive right and option (the “Option”) to earn an undivided 100% interest, right and title in and to certain mining claims located 135 km northwest of Kuujjuak, Ungava Bay region, Quebec. The claims comprise 429 mineral claims covering a total area of 18,700 hectares and are held 100% by the Optionors.

#### **Basis of preparation**

The Company’s financial statements have been prepared in accordance with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board. IFRS includes International Accounting Standards and interpretations of the International Financial Reporting Interpretation Committee.

#### **Basis of measurement**

These financial statements have been prepared on a historical cost basis except for certain financial instruments that are measured at fair values. In addition these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

#### **Functional and presentation currency**

These financial statements are presented in Canadian dollars, which is the Company’s functional currency.

## **NICKEL NORTH EXPLORATION CORP.**

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE NINE MONTHS ENDED DECEMBER 31, 2012**

(Expressed in Canadian Dollars)

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## **2. BACKGROUND AND BASIS OF PREPARATION (continued)**

### **Going concern**

The Company is an exploration stage company. At present, the Company's operations do not generate cash flow. As at December 31, 2013, the Company had an accumulated deficit of \$639,583. The continuing operations of the Company are dependent upon its ability to raise adequate financing and to commence profitable operations in the future. Although the Company has been successful in raising funds in the past, there is no assurance that it will be able to obtain adequate financing in the near future, which raise significant doubts about the Company's ability to continue as a going concern. The directors, after reviewing the current cash position and having considered the Company's ability to raise funds in the short term, believe that the going concern basis is appropriate in preparing its financial statements.

These financial statements do not include adjustments that would be required if going concern was not deemed an appropriate basis for preparation of the financial statements. These adjustments could be material.

### **Use of estimates and judgements**

The preparation of the financial statements in accordance with IFRS requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the reporting period.

Actual results could differ from these estimates. Significant areas requiring the use of management estimates and judgments include:

- (i) Recorded costs of exploration and evaluation assets are not intended to reflect present or future values of these assets. The assessment of indications of impairment and the measuring of the recoverable amount when impairment tests have been prepared involve judgment. The recorded costs are subject to measurement uncertainty and it is reasonably possible, based on existing knowledge, that change in future conditions could require a material change in the recognized amount.
- (ii) The determination of the fair value of stock options or warrants using stock option pricing models, require the input of highly subjective assumptions, including the expected price volatility. Changes in the subjective input assumptions could materially affect the fair value estimate; therefore the existing models do not necessarily provide a reliable single measure of the fair value of the Company's stock options and warrants.
- (iii) The determination of deferred income tax assets or liabilities requires subjective assumptions regarding future income tax rates and the likelihood of utilizing tax carry-forwards. Changes in these assumptions could materially affect the recorded amounts, and therefore do not necessarily provide certainty as to their recorded values.
- (iv) The assessment of the Company's ability to continue as a going concern involves judgment regarding future funding available for its exploration projects and working capital requirements.
- (v) The recognition of provisions for restoration, rehabilitation and environmental obligations.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognised in the period in which the estimates are revised and in any future periods affected.



## **NICKEL NORTH EXPLORATION CORP.**

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE NINE MONTHS ENDED DECEMBER 31, 2012**

(Expressed in Canadian Dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES**

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

#### **Cash and cash equivalents**

Cash and cash equivalents consist of cash held at banks, in the Company's lawyers trust account, and highly liquid investments that are readily convertible to known amounts of cash.

#### **Equipment**

Equipment is recorded at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset into operation and an initial estimate of any rehabilitation obligation. Depreciation of the equipment is calculated using the straight line basis, net of any estimated residual value, over their estimated useful lives. Office equipment is depreciated over three years.

An item of equipment is derecognized upon disposal, when held for sale or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of comprehensive income. The Company conducts an annual assessment of the residual balances, useful lives and depreciation methods being used for equipment and any changes arising from the assessment are applied by the Company prospectively.

#### **Exploration and evaluation assets**

Once a license to explore an area has been secured, all direct costs related to the acquisition, exploration and evaluation of mineral property interests are capitalized into intangible exploration and evaluation assets on a property by property basis until such time that technical feasibility and commercial viability of extracting a mineral resource has been determined for a property, in which case the capitalized exploration and evaluation costs are transferred and capitalized into property, plant and equipment. The Company records expenditures on exploration and evaluation activities at cost. Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Proceeds received from a partial sale or option of any interest in a property is credited against the carrying value of the property. When the proceeds exceed the carrying costs, the excess is recorded in profit or loss in the period the excess is received. When all of the interest in a property is sold, subject only to any retained royalty interests which may exist, the accumulated exploration and evaluation costs are written-off, with any gain or loss included in profit or loss in the period the transfer takes place. No initial value is assigned to any retained royalty interest. A royalty interest is subsequently assessed for value by reference to developments on the underlying mineral property.

## **NICKEL NORTH EXPLORATION CORP.**

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE NINE MONTHS ENDED DECEMBER 31, 2012**

(Expressed in Canadian Dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

Management assesses the exploration and evaluation assets and equipment for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. For exploration and evaluation assets, the assessment is based on the development program, the nature of the mineral deposit, commodity prices and the Company's intentions and ability for development of the undeveloped property. Management assesses equipment for impairment at each statement of financial position date. If, after management review, it is determined that the carrying amount of an asset is impaired, that asset is written down to its estimated recoverable amount. The recoverable amount of an asset is determined as the higher of its fair value less costs to sell and its 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 assets. An impairment loss is reversed if 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 amortisation, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

#### **Provision for decommissioning and restoration**

The Company recognizes provisions for statutory, contractual, constructive or legal obligations associated with the reclamation of mineral properties in the year in which it is probable that an outflow of resources will be required to settle the obligation and when a reliable estimate of the amount can be made. Initially, a provision for a decommissioning liability is recognized based on expected future cash flows required to settle the obligation and discounted at a pre-tax rate specific to the liability. Such costs arise from the decommissioning of site preparation work, discounted to their net present value which are capitalized to the carrying amount of the asset. The capitalized amount is depreciated on the same basis as the related asset. Following the initial recognition of the decommissioning liability, the carrying amount of the liability is increased for the passage of time and adjusted for changes to the current market-based discount rate and the amount or timing of the underlying cash flows needed to settle the obligation. The increase in the provision due to passage of time is recognized as interest expense. Significant judgments and estimates are involved in forming expectations of the amounts and timing of future closure and reclamation cash flows. As at December 31, 2013 and 2012, the Company has no known restoration, rehabilitation or environmental liabilities related to its mineral properties.

#### **Government assistance**

Quebec mining exploration tax credits for certain exploration expenditures incurred in Quebec are treated as a reduction of the exploration and development costs of the respective mineral property.

## **NICKEL NORTH EXPLORATION CORP.**

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE NINE MONTHS ENDED DECEMBER 31, 2012**

(Expressed in Canadian Dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Financial instruments**

##### **i) Financial assets**

All financial assets are initially recorded at fair value and designated into one of the following four categories: held to maturity, available for sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured as fair value with unrealized gains and losses recognized through earnings. The Company's cash and cash equivalents and restricted cash are classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. The Company has not classified any financial assets as loans and receivables.

Financial assets classified as available for sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income and loss except for losses in value that are considered other than temporary which are recognized in earnings. The Company has not classified any financial assets as available for sale.

Transaction costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

##### **ii) Financial Liabilities**

All financial liabilities are initially recorded as fair value and classified as FVTPL or other financial liabilities.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. After initial recognition, other financial liabilities are subsequently measured at amortized costs using the effective interest rate method. The effective interest rate method is a method of calculating the amortized cost of a financial liability and of allocating interest expense over the relevant period. The effective interest rate is the rate that discounts estimated future cash payments through the expected life of the financial liability, or, where appropriate, a shorter period. The Company's accounts and other payables are classified as other financial liabilities.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities designated upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives, are also classified as held for trading and recognized at fair value with changes in fair value recognized in earnings unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in earnings.

##### **iii) Impairment of financial assets**

Financial assets are assessed for indicators of impairment at the end of each reporting period. Financial assets are considered to be impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition, the estimated future cash flows of the investment have been affected. Objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty;
- breach of contract, such as default or delinquency in interest or principal payments;
- the borrower entering bankruptcy or financial re-organization;
- the disappearance of an active market for that financial asset because of lack of liquidity.

## **NICKEL NORTH EXPLORATION CORP.**

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE NINE MONTHS ENDED DECEMBER 31, 2012**

(Expressed in Canadian Dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Financial instruments (continued)**

##### iii) Impairment of financial assets (continued)

The amount of the impairment loss recognized is the difference between the instrument's carrying amount and the present value of estimated future cash flows, discounted at the financial asset's original effective interest rate. 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, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

##### iv) Derecognition of financial assets and financial liabilities

The Company derecognizes a financial asset only when the contractual rights to the cash flows from the asset expire, or when it transfers the financial asset and substantially all the risks and rewards of ownership of the asset to another entity. If the Company neither transfers nor retains substantially all the risks and rewards of ownership and continues to control the transferred asset, the Company recognizes its retained interest in the asset as well as any associated obligations. If the Company retains substantially all the risks and rewards of ownership of a transferred financial asset, the Company continues to recognize the financial asset as well as any collateralized borrowing for the proceeds received.

Upon derecognition of a financial asset in its entirety, the difference between the asset's carrying amount and the sum of the consideration received or receivable and the cumulative gain or loss that had been recognized in accumulated other comprehensive income, is recognized in profit or loss. Upon derecognition of a financial asset other than in its entirety (e.g. when the Company retains an option to repurchase part of a transferred asset or retains a residual interest that does not result in the retention of substantially all the risks and rewards of ownership and the Company retains control), the Company allocates the previous carrying amount of the financial asset between the part it continues to recognize under continuing involvement, and the part it no longer continues to recognize on the basis of the relative fair values of those parts on the date of the transfer. The difference between the carrying amount allocated to the part that is no longer recognized and the sum of the consideration received for the part no longer recognized and any cumulative gain or loss allocated to it that has been recorded in accumulated other comprehensive income, is recognized in profit or loss. A cumulative gain or loss that has been recognized in accumulated other comprehensive income is allocated between the part that continues to be recognized and the part that is no longer recognized on the basis of the relative fair values of those parts.

The Company derecognizes financial liabilities when, and only when, the Company's obligations are discharged, cancelled or they expire. The difference between the carrying amount of the financial liability derecognized and the consideration paid and payable is recognized in profit or loss.

##### v) Offsetting financial instruments

Financial assets and liabilities are offset and the net amount presented in the statement of financial position when, and only when, the Company has a legal right to offset the amounts and intends either to settle on a net basis or to realise the asset and settle the liability simultaneously.

#### **Share capital**

The Company records proceeds from the issuance of its common shares as equity. Incremental costs directly attributable to the issue of new common shares are shown in equity as a deduction, net of tax, from the proceeds. Common shares issued for consideration other than cash are valued based on their market value at the date that shares are issued.

## **NICKEL NORTH EXPLORATION CORP.**

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE NINE MONTHS ENDED DECEMBER 31, 2012**

(Expressed in Canadian Dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Earnings (loss) per share**

Basic earnings/loss per share is calculated by dividing the earnings/loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the earnings/loss attributable to common shareholders equals the reported earnings/loss attributable to owners of the Company. The diluted earnings/loss per share reflects all dilutive potential common shares equivalents, which comprise outstanding stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive.

#### **Share-based payments**

Share-based payments to employees and others providing similar services are measured at the grant date fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of the goods or services received or the fair value of the equity instruments issued if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The amount recognized as an expense is adjusted to reflect the number of options expected to vest. The offset to the recorded cost is to contributed surplus. The number of options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount ultimately recognized as an expense is based on the number of options that eventually vest. Consideration received on the exercise of stock options is recorded as share capital and the related contributed surplus is transferred to share capital.

The fair value of the stock options is determined using the Black-Scholes option pricing model. Measurement inputs include share price on measurement date, exercise price of the instrument, expected volatility (based on weighted average historic volatility), weighted average expected life of the instruments (based on historical experience), expected dividends, and the risk-free interest rate (based on government bonds).

#### **Income taxes**

Current income taxes receivable or payable are estimated on taxable income or loss for the current year at the statutory tax rates enacted or substantively enacted at the reporting date.

Deferred income tax is recognized on temporary differences arising between the tax bases of assets and liabilities and their carrying amounts in the financial statements. Deferred income tax assets and liabilities are measured at the tax rates that have been enacted or substantially enacted at the end of the reporting period and are expected to apply when the related deferred income tax asset is realized or the deferred income tax liability is settled. Deferred income tax assets also result from unused loss carry forwards and other deductions. At the end of each reporting year the Company reassesses unrecognized deferred tax assets. Deferred income tax assets are recognized for unused tax losses, tax credits and deductible temporary differences, only to the extent that it is probable that future taxable profit will be available against which they can be utilized.

Deferred income tax assets and deferred income tax liabilities are offset if a legally enforceable right exists to set off current tax assets against current tax liabilities and the deferred tax assets and liabilities relate to income taxes levied by the same taxation authority.

#### **Flow-through shares**

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. On issue, share capital is recorded at the trading value of an ordinary common share. The difference between the proceeds and the ordinary common share value is recorded as a flow-through share premium liability. The flow-through share premium liability is reduced upon incurring qualifying expenditures and renouncement by the Company of the tax benefits associated with the related expenditures. To the extent that suitable deferred income tax assets are available, the Company will reduce any deferred income tax liability and record a deferred income tax recovery or expense.

## **NICKEL NORTH EXPLORATION CORP.**

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE NINE MONTHS ENDED DECEMBER 31, 2012**

(Expressed in Canadian Dollars)

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### **3. SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### **Recent accounting pronouncements**

The mandatory adoption of the following new and revised accounting standards and interpretations on January 1, 2013 had no significant impact on the Company's financial statements for the periods presented.

**IFRS 13 Fair Value Measurement** - IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. It also establishes disclosures about fair value measurement.

**IFRIC 20 Stripping Costs in the Production Phase of a Surface Mine** - In October 2011, the IASB issued IFRIC 20, which requires the capitalization and depreciation of stripping costs in the production phase if an entity can demonstrate (i) that it is probable future economic benefits will flow to the entity, (ii) the component of the ore body for which the access has been improved is identifiable, (iii) the costs related to the stripping activity associated with that component can be reliably measured.

#### **New accounting standards issued but not yet effective**

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for accounting periods beginning on or after January 1, 2014, or later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

#### **New accounting standards effective January 1, 2014**

**IAS 36 Impairment of Assets** - In May 2013, the IASB issued an amendment to address the disclosure of information about the recoverable amount of impaired assets or a CGU for periods in which an impairment loss has been recognized or reversed. The amendments also address disclosure requirements applicable when an asset's or a CGU's recoverable amount is based on fair value less costs of disposal. Management is currently evaluating the impact the final interpretation is expected to have on the Company's financial statements.

**IFRIC 21 Levies** - In May 2013, the IASB issued IFRIC 21, Levies ("IFRIC 21"), an interpretation of IAS 37, Provisions, Contingent Liabilities and Contingent Assets ("IAS 37"), on the accounting for levies imposed by governments. IAS 37 sets out criteria for the recognition of a liability, one of which is the requirement for the entity to have a present obligation as a result of a past event ("obligating event"). IFRIC 21 clarifies that the obligating event that gives rise to a liability to pay a levy is the activity described in the relevant legislation that triggers the payment of the levy. Management is currently evaluating the impact the final interpretation is expected to have on the Company's financial statements.

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(Expressed in Canadian Dollars)

### 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

#### New accounting standards issued but not yet effective (continued)

#### New accounting standards effective January 1, 2015

**IFRS 9 *Financial Instruments*** - IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard 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 the 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 are recognized in profit or loss to the extent not clearly representing a return of investment; however, others gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

IFRS 9 is effective for annual periods beginning on or after January 1, 2015 with early adoption permitted by amendments to IAS 32, January 1, 2014.

The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

### 4. CASH AND CASH EQUIVALENTS

	December 31, 2013	December 31, 2012
Cash (cheques issued in excess of deposits on hand)	\$ 324,184	\$ (55,405)
Guaranteed investment certificates	800,000	153,000
	<u>\$ 1,124,184</u>	<u>\$ 97,595</u>

The Company's guaranteed investment certificates of \$800,000 bear interest rate at the prime rate minus from 1.80% to 1.85% per annum and mature in 2014.

The Company's guaranteed investment certificates of \$153,000 bear interest rate at the prime rate minus from 2.05% per annum and matured on August 13, 2013.

### 5. RESTRICTED CASH

The Company has provided corporate credit cards to its directors with a credit limit totalling \$25,000 to pay the Company's expenses. As collateral for the credit cards, the Company has a one-year term deposit of \$28,750 earning annual interest at the prime rate minus 1.90% per annum. As at December 31, 2013, the credit cards had a credit balance of \$298 (December 31, 2012 – payable balance of \$4,636) in total.

**NICKEL NORTH EXPLORATION CORP.**

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE NINE MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

**6. EQUIPMENT**

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	Office Equipment
<b>Cost</b>	
Balance as at April 1, 2012	\$ -
Addition	2,773
Balance as at December 31, 2012	2,773
Addition	2,576
Balance as at December 31, 2013	\$ 5,349
<b>Accumulated depreciation</b>	
Balance as at April 1, 2012	\$ -
Depreciation for the period	230
Balance as at December 31, 2012	230
Depreciation for the year	1,636
Balance as at December 31, 2013	\$ 1,866
Net book value as at December 31, 2012	\$ 2,543
Net book value as at December 31, 2013	\$ 3,483

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## NICKEL NORTH EXPLORATION CORP.

### NOTES TO THE FINANCIAL STATEMENTS

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#### 7. EXPLORATION AND EVALUATION ASSETS

	April 1, 2012	Additions	December 31, 2012	Additions	December 31, 2013
<b>Hawk Ridge Property, Quebec</b>					
Acquisition costs					
Option payments	\$ -	\$ 1,897,906	\$ 1,897,906	\$ 919,751	\$ 2,817,657
Other property costs	-	30,050	30,050	65,645	95,695
	-	1,927,956	1,927,956	985,396	2,913,352
Exploration costs					
Accommodation/camp	-	93,439	93,439	315,865	409,304
Assays	-	84,076	84,076	419,203	503,279
Drilling	-	302,585	302,585	1,203,210	1,505,795
Field supplies	-	121,147	121,147	616,130	737,277
Geological consulting	-	349,497	349,497	1,012,861	1,362,358
Miscellaneous	-	40,224	40,224	61,824	102,048
Transportation	-	361,524	361,524	987,180	1,348,704
Travel	-	56,464	56,464	167,178	223,642
	-	1,408,956	1,408,956	4,783,451	6,192,407
Exploration prepayment	-	204,309	204,309	(134,299)	70,010
Mining exploration tax credits	-	-	-	(624,294)	(624,294)
Balance, end of year	-	3,541,221	3,541,221	5,010,254	8,551,475
<b>Nairn Property, Ontario</b>					
Acquisition costs	-	-	-	240,000	240,000
Balance, end of year	-	-	-	240,000	240,000
Total balance, end of year	\$ -	\$ 3,541,221	\$ 3,541,221	\$ 5,250,254	\$ 8,791,475

#### Hawk Ridge Property:

On March 29, 2012, the Company entered into an option agreement with Anthem Resources Inc. (“Anthem”) and its wholly-owned subsidiary (together the “Optionors”), which was subsequently amended on May 15, 2012 (the “First Amendment”), on February 15, 2013 (the “Second Amendment”), and on April 17, 2013 (the “Third Amendment”) whereby the Optionors granted the Company an option to acquire a 100% interest in the Hawk Ridge Ni-Cu-PGE Project in Northern Quebec (the “Hawk Ridge Property”) by making staged payments totaling \$2,000,000 in cash and \$1,000,000 equivalent in common shares of the Company to Anthem by December 31, 2013 as follows:

- Pay \$500,000 in cash (paid) and \$250,000 in common shares (issued) within five business day of TSX-V final approval of the transaction;
- Pay \$500,000 in cash (paid) and \$250,000 in common shares (issued) by December 31, 2012; and
- Pay \$1,000,000 in cash (reduced by \$92,081 for 20% of geophysical survey costs paid by the Company) and issue \$500,000 in common shares (\$500,000 divided by the greater of (A) the price per consideration share (“Share”), equal to 10% discount to the Share’s moving average trading price for the 20 day period immediately preceding the date of issuance, and (B) \$0.20) on or before December 31, 2013 (issued).

## NICKEL NORTH EXPLORATION CORP.

### NOTES TO THE FINANCIAL STATEMENTS

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#### 7. EXPLORATION AND EVALUATION ASSETS (continued)

During the year ended December 31, 2013, under the Third Amendment, in lieu of paying \$1,000,000 in cash on or before December 31, 2013, the Company issued to the Optionors 3,631,675 units (the "Conversion Units") equal to \$907,919 (\$1,000,000 less \$92,081 for the geophysical survey costs) divided by \$0.25 per Conversion Unit. Each Conversion Unit consists of one common share and one half of one common share purchase warrant with each whole warrant entitling the holder to acquire one additional common share for a period of two years, at an exercise price of \$0.35 per share in the first year and \$0.60 per share in the second year. In addition, the Company issued 2,500,000 common shares equal to \$500,000 divided by the greater of \$0.20 or a 10% discount to the 20 day moving average trading price of the Company for the 20 day period immediately preceding the date of issuance.

During the year ended December 31, 2012, the Company issued 2,302,032 units with a fair value of \$460,406 as geophysical survey expense. Each unit comprised one common share and one-half of a share purchase warrant; each whole warrant entitles the holder to acquire one common share for a period of two years following the closing date at a price of \$0.35 in the first year and at a price of \$0.60 in the second year.

The property is subject to a 3% net smelter returns royalty ("NSR") and the Company has the option to purchase one-third of the NSR (1%) for \$1,000,000.

On May 1, 2013, the Company has fulfilled all option payments and acquired 100% ownership of the Hawk Ridge Property.

The exploration expenditures incurred on the property in Quebec are entitled to certain Quebec mining exploration tax credits. During the year ended December 31, 2013, the Company has submitted a claim for the mining exploration tax credit of \$624,294 for the eligible exploration expenditures incurred for the period from the completion of QT to March 31, 2013.

##### Nairn Property:

On August 23, 2013, pursuant to a property purchase agreement with Sino Minerals Corp. ("Sino Minerals") entered into on June 27, 2013, the Company acquired all of Sino Mineral's 100% interest in 14 mining claims covering a total area of approximately 2,860 hectares located in the Province of Ontario and known as the Nairn Property (the "Nairn Property"), subject to a 2% net smelter returns royalty over six of the claims and third party freehold patent surface rights over eight of the claims. In consideration for the Nairn Property, the Company issued to Sino Minerals 2,000,000 common shares at a market price of \$0.12 per share for a fair value of \$240,000.

#### 8. ACCOUNTS AND OTHER PAYABLES

The Company's accounts and other payables are as follows:

	December 31, 2013	December 31, 2012
Accounts payable	\$ 48,303	\$ 13,606
Amounts due to related parties (Note 12)	17,325	93,310
Accrued expenses to related parties (Note 12)	129,257	25,708
Other payable	9,566	-
	<u>\$ 204,451</u>	<u>\$ 132,624</u>

Accounts payable principally comprises amounts outstanding for trade purchases relating to exploration activities and accrued expenses for operating activities. The usual credit period taken for trade purchases is between 30 to 90 days.

## **NICKEL NORTH EXPLORATION CORP.**

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE NINE MONTHS ENDED DECEMBER 31, 2012**

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#### **9. LOANS PAYABLE**

During the year ended March 31, 2010, the Company received loans totalling \$20,000 from three non-related individuals. These loans were unsecured, accrued interest at 8% per annum and were due on or before the earlier of (1) March 12, 2012 or (2) when the Company completes an equity financing. During the nine months ended December 31, 2012, the Company paid \$5,975 and issued 87,167 common shares with a fair value of \$17,434 as full repayment of the \$20,000 principal and \$3,409 interest on the loans.

#### **10. LOANS FROM RELATED PARTIES**

During the year ended March 31, 2010, the Company received loans of \$77,000 and \$13,000 from a company controlled by the former Chief Financial Officer ("CFO") of the Company and from the former President of the Company, respectively. The loans were unsecured, accrued interest at 8% per annum and were due on or before the earlier of (1) October 1, 2012 or (2) when the Company completes an equity financing. During the nine months ended December 31, 2012, the Company issued 541,200 common shares with a fair value of \$108,239 as full repayment of the \$90,000 principal and \$18,239 interest on the loans.

#### **11. SHARE CAPITAL**

##### **Authorized**

The Company has authorized an unlimited number of common shares with no par value and an unlimited number of non-voting, non-participating, non-cumulative preferred shares without par value issuable in series.

**NICKEL NORTH EXPLORATION CORP.**

## NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE NINE MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

**11. SHARE CAPITAL (continued)****Shares issued and outstanding**

	Note	Number of Common Shares	\$
Balance, April 1, 2012		4,260,790	385,471
Shares issued pursuant to private placements	i)	5,300,000	265,000
Shares issued to Anthem pursuant to the option agreement	iv)	4,802,032	897,906
Shares issued pursuant to concurrent financing upon QT	ii)&iii)	17,064,600	3,412,920
Shares issued as finder fee for QT	v)	100,000	20,000
Share issuance costs paid in cash	i) & ii)	-	(122,296)
Agent's warrants issued in connection with private placements	ii)	-	(15,262)
Finder's fees paid in cash pursuant to private placements	ii)	-	(58,398)
Shares issued for the debt settlement	vi)	1,072,983	214,597
Shares issued pursuant to exercise of options	vii)	320,000	54,871
Balance, December 31, 2012		32,920,405	5,054,809
Share issued pursuant to non-flow-through private placements	viii)	8,000,000	1,440,000
Shares issued to Anthem pursuant to the option agreement	ix)	6,131,675	919,751
Share issued pursuant to flow-through private placements	x)	16,666,667	2,500,000
Agent's warrants issued	x)	-	(9,615)
Share issuance costs paid in cash	x)	-	(177,866)
Shares issued to Sino Minerals to purchase Nairn Property	xi)	2,000,000	240,000
Balance, December 31, 2013		65,718,747	9,967,079

During the nine months period ended December 31, 2012, the Company:

- i) Completed a non-brokered private placement of 5,300,000 common shares at a price of \$0.05 per share for gross proceeds of \$265,000. The Company incurred share issuance costs of \$27,079 in connection with the private placement.

## NICKEL NORTH EXPLORATION CORP.

### NOTES TO THE FINANCIAL STATEMENTS

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(Expressed in Canadian Dollars)

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#### 11. SHARE CAPITAL (continued)

##### Shares issued and outstanding (continued)

- ii) Completed a brokered financing of 2,504,600 flow-through units at a price of \$0.22 per flow-through unit for gross proceeds of \$551,012. Each flow-through unit is comprised of one flow-through common share and one-half of a share purchase warrant; each whole warrant entitles the holder to acquire one additional non-flow-through common share at a price of \$0.35 in the first year and at a price of \$0.60 in the second year. The Company paid a cash commission of \$33,398 and a corporate finance fee of \$25,000, incurred share issuance costs of \$32,965 and issued 151,810 agent's warrants in connection with the brokered financing. Each agent's warrant is exercisable until August 2, 2014 to acquire one common share at a price of \$0.22. The agent's warrants were valued at \$15,262. Pursuant to the terms of the flow-through agreements, the Company is required to comply with the contractual obligations and the renouncement requirements of the Canadian Income Tax Act. As of December 31, 2012, all of the exploration expenditures of \$551,012 related to the flow through shares had been incurred and the Company renounced the expenditures on February 12, 2013.

For the purposes of calculating the tax effect of any premium related to the issuance of flow-through shares, management reviewed the price per share in a recent non-flow-through financing and compared it to the price used in this issuance and determined that there was a premium of \$0.02 per flow-through unit. As at December 31, 2012, the Company recognized \$50,092 as premium on flow-through shares liability. During the year ended December 31, 2013 the Company recognized \$50,092 (December 31, 2012 - \$nil) as other income for the tax deduction passed on to the flow-through shareholders.

- iii) Completed a non-brokered financing of 14,560,000 units at a price of \$0.20 per unit for gross proceeds of \$2,912,000. Each unit is comprised of one common share and one-half of a share purchase warrant; each whole warrant entitles the holder to acquire one additional common share at a price of \$0.35 until August 2, 2013 and at a price of \$0.60 until August 2, 2014. The Company incurred share issuance costs of \$62,252 in connection with the private placement.
- iv) Issued 4,802,032 common shares pursuant to the option agreement to acquire the Hawk Ridge Property with a fair value of \$897,906.
- v) Issued 100,000 common shares at \$0.20 per share with a fair value of \$20,000 as a finder's fee in connection with the QT.
- vi) Issued 1,072,983 common shares at \$0.20 per share to settle \$88,924 of accounts payable, \$17,434 of loans payable and \$108,239 of loans from related parties.
- vii) Issued 320,000 common shares at a price of \$0.10 per share from the exercise of 320,000 stock options for gross proceeds of \$32,000.

During the year ended December 31, 2013, the Company:

- viii) Completed a non-brokered private placement of 8,000,000 units at a price of \$0.25 per unit for gross proceeds of \$2,000,000. Each unit consists of one common share and one half of a share purchase warrant; each whole warrant entitles the holder to acquire one additional common share at a price of \$0.35 until March 28, 2014 and at a price of \$0.60 until March 28, 2015.

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### **NOTES TO THE FINANCIAL STATEMENTS**

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#### **11. SHARE CAPITAL (continued)**

##### **Shares issued and outstanding (continued)**

- ix) Issued 6,131,675 common shares pursuant to the Third Amendment to acquire the Hawk Ridge Property with a fair value of \$919,751.
- x) Completed a brokered financing of 16,666,667 flow-through shares at a price of \$0.30 per flow-through share for gross proceeds of \$5,000,000. The Company incurred share issuance costs of \$177,866 and issued 250,000 agent's warrants in connection with the financing. Each agent's warrant is exercisable until May 30, 2015 to acquire one common share at a price of \$0.35. The agent's warrants were valued at \$9,615. Pursuant to the terms of the flow-through agreements, the Company is required to comply with the contractual obligations and the renouncement requirements of the Canadian Income Tax Act. As of December 31, 2013 the Company incurred \$4,334,926 of the required exploration expenditures and renounced the expenditures on February 12, 2014.

For the purposes of calculating the tax effect of any premium related to the issuance of flow-through shares, management reviewed the quoted market price per non-flow-through share on the issuance date and compared it to the price used in this issuance and determined that there was a premium of \$0.15 per flow-through share. As at December 31, 2013, the Company recognized \$332,537 as premium on flow-through shares liability. During the year ended December 31, 2013, the Company recognized \$2,167,463 (December 31, 2012 - \$nil) as other income for the tax deduction passed on to the flow-through shareholders under the renouncement filed.

- xi) Issued 2,000,000 common shares to acquire Nairn Property with a fair value of \$240,000.

##### **Escrow shares**

21,536,726 common shares issued prior to the completion of the Qualifying Transaction are subject to escrow. Pursuant to TSX-V Policy 2.4, 10% of the escrowed common shares will be released from escrow on the listing date and 15% will be released every six months thereafter over a period of thirty six months. As at December 31, 2013, 12,906,035 (December 31, 2012 – 19,363,053) common shares remained in escrow.

##### **Basic and diluted earnings/loss per share**

The calculation of basic earnings per share for the year ended December 31, 2013 was based on net income of \$816,050 (December 31, 2012 – net loss of \$728,533), attributable to common shareholders and a weighted average number of common shares outstanding of 53,687,881 (December 31, 2012 – 20,588,606). Diluted earnings per share was calculated in a manner similar to basic earnings per share except the weighted average number of shares outstanding is increased to include the assumed exercised of in-the-money stock options, warrants, and agent's warrants, if dilutive.

At December 31, 2012, 2,233,250 stock options, 9,683,316 warrants and 151,810 agent's warrants were excluded from the diluted weighted average number of common shares calculation as their effect would have been anti-dilutive.

##### **Stock options**

The Company has a stock option plan under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. The exercise price of each option shall not be less than the market price of the Company's stock at the date of grant. The options can be granted for a maximum term of 5 years and vest as determined by the board of directors.

**NICKEL NORTH EXPLORATION CORP.**

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**11. SHARE CAPITAL (continued)****Stock options (continued)**

On August 27, 2012, the Company granted an aggregate of 2,700,000 stock options to its directors, officers, and consultants pursuant to its stock option plan. Each stock option is exercisable for a period of 5 years at a price of \$0.20 per common share. 2,163,250 of the options vested immediately on the date of grant, 155,000 of the options granted to the CEO vested on August 2, 2013, and the remaining 381,750 options were never vested before they were expired or cancelled. 100,000 of the options, of which 85,000 were vested and 15,000 were not vested, were cancelled by the Company during the nine months ended December 31, 2012, and 366,750 stock options were not vested and expired on December 31, 2012.

On August 31, 2012, 320,000 options granted on September 5, 2007 were exercised at \$0.10 per share. The remaining 100,000 options which were granted on September 5, 2007 expired on September 4, 2012.

On April 15, 2013, the Company granted 200,000 stock options to a consultant of the Company. Each stock option is exercisable for a period of 90 days at a price of \$0.20 per common share. The 200,000 stock options expired on July 15, 2013.

Stock option transactions are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, outstanding and exercisable at April 1, 2012	420,000	\$ 0.10
Options granted	2,700,000	0.20
Exercised	(320,000)	0.10
Cancelled	(100,000)	0.20
Expired	(466,750)	0.18
Balance, December 31, 2012	2,233,250	0.20
Option granted	200,000	0.20
Cancelled	(19,125)	0.20
Expired	(200,000)	0.20
Balance, Outstanding and Exercisable at December 31, 2013	2,214,125	\$ 0.20
Balance, Outstanding and Exercisable at December 31, 2012	2,078,250	\$ 0.20

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#### 11. SHARE CAPITAL (continued)

##### Stock options (continued)

The following options to acquire common shares were outstanding at December 31, 2013.

Number of Shares	Exercise Price	Expiry Date
2,214,125	\$ 0.20	August 28, 2017

For the year ended December 31, 2013, the Company expensed \$1,199 for the stock options granted as share-based payments. The stock option were value using the Black-Scholes option pricing model based on the following assumptions: a risk-free interest rate of 0.96%, an expected life of 90 days, volatility of 100%, a dividend rate of 0% and a market price of the shares at grant date of \$0.12. The fair value of the options issued was \$0.01.

For the nine months ended December 31, 2012, the Company expensed \$142,889 for the stock options granted during the period as share-based payments. The stock option were valued using the Black-Scholes option pricing model based on the following assumptions: a risk-free interest rate of 1.23%, an expected life of 3 years, annualized volatility of 100%, a dividend rate of 0% and a market price of the shares at grant date of \$0.12. The fair value of the options issued was \$0.06.

##### Warrants

The Company uses the residual value approach when allocating the fair value of the share purchase warrants issued in conjunction with the offering of units through a private placement. The Company determines the fair value of the common share and the residual value is allocated to the share purchase warrant for unit offerings that contain a common share and a share purchase warrant. Agents' warrants are measured at fair value on the date of the grant as determined using a Black-Scholes option pricing model.

##### During the nine months ended December 31, 2012:

The fair value of 151,810 agent warrants issued in connection with the private placement of 2,504,600 units in August 2012 was \$15,262. The Company used the Black-Scholes option pricing model based on the following assumptions: a risk-free interest rate of 1.08%, an expected life of 2 years, annualized volatility of 100%, a dividend rate of 0%, and a market price of the shares at grant date of \$0.20. The fair value of the agent warrants issued was \$0.10.

##### During the year ended December 31, 2013:

The fair value of 4,000,000 warrants issued in connection with the non-brokered private placement of 8,000,000 units on March 28, 2013 was \$560,000 based on the residual value approach.

The fair value of 250,000 agent warrants issued in connection with the private placement of 16,666,667 units in May 2013 was \$9,615. The Company used the Black-Scholes option pricing model based on the following assumptions: a risk-free interest rate of 1.02%, an expected life of 2 years, annualized volatility of 100%, a dividend rate of 0%, and a market price of the shares at grant date of \$0.15. The fair value of the agent warrants issued was \$0.04.



**NICKEL NORTH EXPLORATION CORP.**

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**11. SHARE CAPITAL (continued)****Warrants (continued)**

Warrant transactions are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, April 1, 2012	-	\$ -
Warrants issued	9,683,316	0.48
Agent's warrants issued	151,810	0.22
Balance, Outstanding and Exercisable at December 31, 2012	9,835,126	0.47
Warrants issued	5,815,838	0.48
Agent's warrants issued	250,000	0.35
Balance, Outstanding and Exercisable at December 31, 2013	15,900,964	\$ 0.47

As at December 31, 2013 the following warrants were outstanding:

	Number of Warrants	Exercise Price	Expiry Date
Warrants	9,683,316	\$ 0.35 for 1 <sup>st</sup> year 0.60 for 2 <sup>nd</sup> year	August 2, 2014
Agent's warrants	151,810	\$ 0.22	August 2, 2014
Warrants	4,000,000	\$ 0.35 for 1 <sup>st</sup> year 0.60 for 2 <sup>nd</sup> year	March 28, 2015
Warrants	1,815,838	\$ 0.35 for 1 <sup>st</sup> year 0.60 for 2 <sup>nd</sup> year	May 1, 2015
Agent's warrants	250,000	\$ 0.35	May 30, 2015
	15,900,964		

## **NICKEL NORTH EXPLORATION CORP.**

### **NOTES TO THE FINANCIAL STATEMENTS**

**FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE NINE MONTHS ENDED DECEMBER 31, 2012**

(Expressed in Canadian Dollars)

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#### **12. RELATED PARTY TRANSACTIONS AND BALANCES**

The Company entered into the following related party transactions for the years ended December 31, 2013 and 2012:

- a) Incurred corporate consulting fees of \$71,029 (December 31, 2012 - \$45,000) from a company owned by the CEO of the Company.
- b) Incurred consulting fees of \$14,930 (December 31, 2012 - \$27,550) from a company controlled by the former CFO of the Company.
- c) Incurred consulting fees of \$30,000 (December 31, 2012 - \$12,500) from a company controlled by a director of the Company.
- d) Incurred consulting fees of \$nil (December 31, 2012 - \$20,000) from a former officer of the Company for corporate finance services provided.
- e) Incurred consulting fees of \$34,875 (December 31, 2012 - \$123,313) from a company with an executive officer in common with the Company for services provided in connection with the financing, marketing and investor relations.
- f) Incurred corporate consulting fees of \$6,200 (December 31, 2012 - \$3,800) from a company owned by an officer of the Company.
- g) Incurred corporate consulting fees of \$12,300 (December 31, 2012 - \$5,000) from a company with two directors in common.
- h) Incurred corporate consulting fees of \$26,357 (December 31, 2012 - \$nil) from a company with two directors in common.
- i) Incurred interest expense of \$4,866 (December 31, 2012 - \$5,541) on a loan from a company controlled by directors of the Company. The principal of the loan was \$300,000 pursuant to a loan agreement entered on February 8, 2013 with Sino Minerals Corp., a subsidiary of Goldrock Resources Co. Ltd. The loan was unsecured, accrued interest at 8% per annum and was fully repaid in May 2013.
- j) During the nine months ended December 31, 2012, the Company issued 541,200 common shares to settle \$108,239 of loans and accrued interest due from a former director of the Company and a company controlled by the former CEO of the Company.
- k) Incurred director fees of \$102,417 (December 31, 2012-\$ 16,485) from the directors of the Company.
- l) Incurred \$225,096 (December 31, 2012 - \$88,000) geological consulting fees for exploration expenditures to companies controlled by directors and by the CEO of the Company.
- m) Included in account and other payables is \$146,582 (December 31, 2012 - \$119,018) due to directors, officers and companies controlled by directors and officers for services rendered and unpaid director fees. These amounts are unsecured, non-interest bearing, and have no specific terms of repayment.

## NICKEL NORTH EXPLORATION CORP.

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE NINE MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

#### 12. RELATED PARTY TRANSACTIONS (continued)

- n) On August 23, 2013, the Company acquired Nairn Property from Sino Mineral Corp., a subsidiary of Goldrock Resources Co. Ltd., which has two directors in common with the Company. In consideration for the Nairn Property, the Company issued 2,000,000 common shares with a fair value of \$240,000 to Sino Minerals Corp.

Key management includes directors (executive and non-executive) and senior officers of the Company, including Chief Executive Officer and Chief Financial Officer. The compensation paid or payable to key management personnel for the year ended December 31, 2013 and for the nine month periods ended December 31, 2012 are as follows:

	Year Ended December 31, 2013	Nine Months Ended December 31, 2012
Wage and consulting fees	\$ 486,702	\$ 319,121
Share-based payments	-	101,081
Total	\$ 486,702	\$ 420,202

#### 13. SUPPLEMENTAL CASH FLOW INFORMATION

	For the Year Ended December 31, 2013	For the Nine Months Ended December 31, 2012
Cash paid for income taxes	\$ -	\$ -
Cash paid for interest	\$ 4,866	\$ 5,541

Significant non-cash investing and financing transactions during the year ended December 31, 2013 included:

- The Company issued 6,131,675 common shares with a fair value of \$919,751 pursuant to the Third Amendment to acquire the Hawk Ridge Property.
- The Company issued 250,000 agent's warrant with a fair value of \$9,615 as financing fees for the flow-through private placements in May 2013.
- The Company issued 2,000,000 common shares with a fair value of \$240,000 to acquire Nairn Property.

Significant non-cash investing and financing transactions during the nine month period ended December 31, 2012 included:

- The Company issued 4,802,032 common shares with a total value of \$897,906 pursuant to the option agreement to acquire the Hawk Ridge property.
- The Company issued 100,000 common shares with a fair value of \$20,000 as a finder's fee in connection with the Qualifying Transaction.
- The Company issued 1,072,983 common shares at \$0.20 per share to settle \$88,924 of accounts payable, \$17,434 of loans payable and \$108,239 of loans from related parties.
- The Company issued 151,810 agent's warrants with a fair value of \$15,262 as financing fees for a brokered private placement.

## NICKEL NORTH EXPLORATION CORP.

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE NINE MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

#### 14. CAPITAL MANAGEMENT

The Company's objectives when managing capital are to safeguard its ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk. In the management of capital, the Company includes components of shareholders' equity in the definition of 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. To maintain or adjust its capital structure, the Company may attempt to issue new shares, issue new debt, and acquire or dispose of assets. The Board of Directors does not establish quantitative return on capital criteria for management.

There were no changes in the Company's approach to capital management from the prior year. The Company is not subject to externally imposed capital requirements.

#### 15. INCOME TAXES

In assessing the realizability of deferred tax assets, management considers whether it is more probable than not that some portion or all of the deferred tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of deferred taxable income during the periods in which those temporary differences are expected to reverse. Management considers the scheduled reversal of deferred tax liabilities, projected taxable income, and tax planning strategies in making this assessment. The amount of deferred tax assets considered realizable could change materially in the near term based on deferred taxable income during the carry forward period.

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

	December 31, 2013	December 31, 2012
Substantively enacted rate	26.00%	26.00%
Non-capital losses carried forward	\$ 574,826	\$ 358,786
Share issuance costs	65,184	37,584
Exploration and evaluation assets	(1,270,325)	-
Unrecognized deferred tax assets	-	(396,370)
Net deferred income tax assets (liabilities)	\$ (630,315)	\$ -

As at December 31, 2013, the Company has non-capital losses carried forward of \$2,209,005 which available to offset future years taxable income earned in Canada. These losses expired as follows:

	\$
2027	58,482
2028	315,882
2029	263,119
2030	79,657
2031	46,630
2032	614,567
2033	830,668
	<u>2,209,005</u>

## NICKEL NORTH EXPLORATION CORP.

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE NINE MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

#### 15. INCOME TAXES (continued)

The following table reconciles the amount of income tax recoverable on application of statutory Canadian federal and provincial income tax rates to the amount reported in these financial statements:

	Year Ended December 31, 2013	Nine Months Ended December 31, 2012
Net income (loss) before income taxes	\$ 1,446,365	\$ (728,533)
Statutory rate	25.75%	25%
Expected income tax expense (recovery)	372,449	(182,133)
Permanent differences and other	647,659	(8,903)
Change in enacted tax rates	6,577	(15,245)
Change in unrecognized (recognized) deferred income tax assets	(396,370)	206,281
Deferred income tax expense	\$ 630,315	\$ -

#### 16. FINANCIAL INSTRUMENTS

##### Fair values

The Company's financial instruments include cash and cash equivalents, restricted cash, account and other payables. The carrying amounts of these financial instruments are a reasonable estimate of their fair values because of their current nature. The fair value of these financial instruments approximates their carrying value due to their short terms of maturity.

The following table summarizes the carrying values of the Company's financial instruments:

	December 31, 2013	December 31, 2012
FVTPL (i)	\$ 1,152,934	\$ 126,345
Other financial liabilities (ii)	\$ 204,451	\$ 132,624

(i) Cash and cash equivalents, restricted cash

(ii) Accounts and other payables

The Company classifies its fair value measurements in accordance with the three level fair value hierarchy as follows:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly (i.e. as prices) or indirectly (i.e. derived from prices), and

Level 3 – Inputs that are not based on observable market data

The following table sets forth the Company's financial assets measured at fair value on a recurring basis by level within the fair value hierarchy as follows:

	Level 1	Level 2	Level 3	Total December 31, 2013
Cash and cash equivalents	\$ 1,124,184	\$ -	\$ -	\$ 1,124,184
Restricted cash	\$ 28,750	\$ -	\$ -	\$ 28,750

## NICKEL NORTH EXPLORATION CORP.

### NOTES TO THE FINANCIAL STATEMENTS

FOR THE YEAR ENDED DECEMBER 31, 2013 AND THE NINE MONTHS ENDED DECEMBER 31, 2012

(Expressed in Canadian Dollars)

#### 16. FINANCIAL INSTRUMENTS (continued)

##### Financial risk management

The Company's financial risks arising from its financial instruments are credit risk, liquidity risk, and interest rate risk. The Company's exposures to these risks and the policies on how to mitigate these risks are set out below. Management manages and monitors these exposures to ensure appropriate measures are implemented on a timely and effective manner.

##### *Credit risk*

Credit risk is the risk of potential loss to the Company if the counter party to a financial instrument fails to meet its contractual obligations. The credit risk of the Company is associated with cash and cash equivalents. The credit risk with respect to its cash and cash equivalents is minimal as they are held with high-credit quality financial institutions. Management does not expect these counterparties to fail to meet their obligations.

##### *Liquidity risk*

Liquidity risk is the risk that the Company will not meet its obligations associated with its financial liabilities as they fall due. As at December 31, 2013, the Company had working capital of \$1,898,965 (2012 - \$220,710). All of the Company's financial liabilities are classified as current.

At present, the Company's operations do not generate cash flow. The Company's primary source of funding has been the issuance of equity securities through private placements and the exercise of stock options and warrants. Despite previous success in acquiring these financings, there is no guarantee of obtaining future financings.

Significant commitments in years subsequent to December 31, 2013 are as follows:

	< 1 year	1 – 3 years	Total
Accounts and other payables	\$ 204,451	\$ -	\$ 204,451

##### *Interest rate risk*

The Company is exposed to interest rate risk to the extent that the cash and cash equivalents maintained at the financial institutions. The interest rate risks on cash and cash equivalents are not considered significant due to their short-term nature.

#### 17. SUBSEQUENT EVENT

Subsequent to the year ended December 31, 2013, the Company received \$943,400 of the sales tax and government tax credits that were included in sales tax recoverable and other receivables as of December 31, 2013.