

**FAIRMONT RESOURCES INC.**

**Financial Statements**

**For the years ended  
October 31, 2012 and 2011**

**Expressed in Canadian Dollars**

**INDEPENDENT AUDITORS' REPORT**

To the Shareholders of  
Fairmont Resources Inc.

We have audited the accompanying financial statements of Fairmont Resources Inc., which comprise the statements of financial position as at October 31, 2012, October 31, 2011 and November 1, 2010, and the statements of comprehensive loss, changes in equity and cash flows for the years ended October 31, 2012 and October 31, 2011, and a summary of significant accounting policies and other explanatory information.

***Management's Responsibility for the Financial Statements***

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

***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 audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

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

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



*Opinion*

In our opinion, these financial statements present fairly, in all material respects, the financial position of Fairmont Resources Inc. as at October 31, 2012, October 31, 2011 and November 1, 2010 and its financial performance and its cash flows for the years ended October 31, 2012 and October 31, 2011 in accordance with International Financial Reporting Standards.

*Emphasis of Matter*

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

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

February 14, 2013

**FAIRMONT RESOURCES INC.**  
**STATEMENTS OF FINANCIAL POSITION**  
**(Expressed in Canadian Dollars)**

	October 31, 2012	October 31, 2011	November 1, 2010
		(Note 12)	(Note 12)
<b>ASSETS</b>			
<b>CURRENT</b>			
Cash and cash equivalents (Note 4)	\$ 249,160	\$ 826,159	\$ 975,901
Amounts receivable	31,648	68,710	11,795
Prepaid expenses	70,127	18,322	10,000
<b>TOTAL CURRENT ASSETS</b>	<b>350,935</b>	<b>913,191</b>	<b>997,696</b>
Exploration and evaluation assets (Note 5)	1,783,396	1,214,519	187,636
<b>TOTAL ASSETS</b>	<b>\$ 2,134,331</b>	<b>\$ 2,127,710</b>	<b>\$ 1,185,332</b>
<b>LIABILITIES</b>			
<b>CURRENT</b>			
Accounts payable and accrued liabilities	\$ 29,361	\$ 32,627	\$ 103,282
Due to related parties (Note 8)	79,217	1,000	6,720
Flow-through share premium liability (Note 7)	-	55,173	-
<b>TOTAL CURRENT LIABILITIES</b>	<b>108,578</b>	<b>88,800</b>	<b>110,002</b>
<b>SHAREHOLDERS' EQUITY</b>			
Share capital (Note 6)	3,306,679	2,833,908	1,297,464
Equity reserves (Note 6)	694,341	548,124	127,833
Deficit	(1,975,267)	(1,343,122)	(349,967)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>2,025,753</b>	<b>2,038,910</b>	<b>1,075,330</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>\$ 2,134,331</b>	<b>\$ 2,127,710</b>	<b>\$ 1,185,332</b>

Nature and continuance of operations (Note 1)  
Subsequent events (Note 14)  
Approved on behalf of the Board on February 14, 2013:

"Greg Ball"  
Director

"Neil Pettigrew"  
Director

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

**FAIRMONT RESOURCES INC.**  
**STATEMENTS OF COMPREHENSIVE LOSS**  
**(Expressed in Canadian Dollars)**

	<u>Years ended October 31,</u>	
	<u>2012</u>	<u>2011</u>
		(Note 12)
<b>EXPENSES</b>		
Administration	\$ 38,929	\$ 9,500
Advertising and promotion	36,809	86,358
Audit and accounting	75,450	54,518
Consulting	41,250	98,767
Exploration	10,785	-
Insurance	2,511	9,239
Investor relations	150,500	96,500
Legal	15,494	17,462
Management (Note 8)	92,768	63,500
Office and miscellaneous	11,017	9,080
Rent	22,246	16,500
Registration and transfer fees	23,094	21,200
Share-based payments (Note 6)	121,638	350,206
Travel	24,479	25,221
Website design and maintenance	3,000	7,765
Wages and benefits	22,687	-
Operating expenses	(692,657)	(865,816)
Interest income	5,339	10,289
Write-off of exploration and evaluation assets (Note 5)	-	(246,205)
Other income on settlement of flow-through share premium liability (Note 7)	55,173	108,577
Comprehensive loss for the year	\$ (632,145)	\$ (993,155)
Loss per share, basic and diluted	\$ (0.03)	\$ (0.07)
Weighted average number of shares outstanding:	18,517,441	14,386,331

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

**FAIRMONT RESOURCES INC.**  
**STATEMENTS OF CASH FLOWS**  
**(Expressed in Canadian Dollars)**

	<b>Years ended October 31,</b>	
	<b>2012</b>	<b>2011</b>
		(Note 12)
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net loss	\$ (632,145)	\$ (993,155)
Adjustments		
Share-based payments	121,638	350,206
Other income on settlement of flow-through share premium liability	(55,173)	(108,577)
Write-off of exploration and evaluation asset	-	246,205
Interest income	(5,339)	(10,289)
Changes in non-cash working capital items		
Amounts receivable	37,062	(56,915)
Prepaid expenses	(51,805)	(8,322)
Accounts payable and accrued liabilities	(12,166)	(70,655)
Due to related parties	(631)	(5,720)
<b>Net cash used in operating activities</b>	<b>(598,559)</b>	<b>(657,222)</b>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Issuance of shares	516,500	1,894,720
Share issuance costs	(50,900)	(175,441)
<b>Net cash from financing activities</b>	<b>465,600</b>	<b>1,719,279</b>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Exploration and evaluation asset expenditures	(449,379)	(1,222,088)
Interest received	5,339	10,289
<b>Net cash used in investing activities</b>	<b>(444,040)</b>	<b>(1,211,799)</b>
Change in cash and cash equivalents during the year	(576,999)	(149,742)
Cash and cash equivalents, beginning of year	826,159	975,901
<b>Cash and cash equivalents, end of year</b>	<b>\$ 249,160</b>	<b>\$ 826,159</b>

**SUPPLEMENTAL INFORMATION**

**NON CASH TRANSACTIONS**

Shares issued for exploration and evaluation asset (Note 5)	\$ 31,750	\$ 51,000
Agents units and warrants issued for private placement (Note 6)	\$ 24,579	\$ 77,124
Transfer from equity reserve to share capital upon the exercise of agent warrants	\$ -	\$ 7,039
Exploration and evaluation assets included in accounts payable and accrued liabilities	\$ 8,900	\$ -
Exploration and evaluation assets included in due to related parties	\$ 78,848	\$ -

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

**FAIRMONT RESOURCES INC.**  
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**FOR THE YEARS ENDED OCTOBER, 2012 AND 2011**  
**(Expressed in Canadian Dollars)**

	Number of shares	Share Capital	Equity Reserves	Deficit	Total shareholders' equity
Balance at November 1, 2010	11,037,000	\$1,297,464	\$ 127,833	\$ (349,967)	\$ 1,075,330
Private placement	4,905,000	1,880,500	-	-	1,880,500
Flow-through share premium liability	-	(163,750)	-	-	(163,750)
Share issuance costs	-	(175,441)	-	-	(175,441)
Agent warrants issued as finders' fees	-	(77,124)	77,124	-	-
Exercise of agent warrants	65,100	14,220	-	-	14,220
Adjustment for exercised agent warrants	-	7,039	(7,039)	-	-
Shares issued for exploration and evaluation assets	200,000	51,000	-	-	51,000
Share-based payments	-	-	350,206	-	350,206
Loss for the year	-	-	-	(993,155)	(993,155)
Balance at October 31, 2011	16,207,100	2,833,908	548,124	(1,343,122)	2,038,910
Private placement	3,443,333	516,500	-	-	516,500
Share issuance costs	-	(50,900)	-	-	(50,900)
Agent warrants issued as finders' fees	-	(24,579)	24,579	-	-
Shares issued for exploration and evaluation assets	275,000	31,750	-	-	31,750
Share-based payments	-	-	121,638	-	121,638
Loss for the year	-	-	-	(632,145)	(632,145)
Balance at October 31, 2012	19,925,433	\$3,306,679	\$ 694,341	\$(1,975,267)	\$ 2,025,753

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

## FAIRMONT RESOURCES INC.

Notes to the Financial Statements

(Expressed in Canadian Dollars)

Years ended October 31, 2012 and 2011

### 1. NATURE AND CONTINUANCE OF OPERATIONS

Fairmont Resources Inc. (the "Company") was incorporated on May 25, 2007 under the British Columbia Business Corporations Act as Strike Explorations Corp. On April 23, 2009, the Company changed its name to Fairmont Resources Inc. The Company's head office address is Suite 610 – 1100 Melville Street, Vancouver, BC V6E 4A6, Canada. The registered and records office address is Suite 704 – 595 Howe Street, Vancouver, BC V6C 2T5, Canada. The Company is listed on the TSX Venture Exchange under the symbol "FMR". The Company is primarily engaged in the acquisition, exploration and development of exploration and evaluation assets. At October 31, 2012, the Company had not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of amounts shown for exploration and evaluation assets and related deferred exploration costs is dependent upon the discovery of economically recoverable reserves, confirmation of the Company's interest in the underlying mineral claims, the ability of the Company to obtain necessary financing to complete the development, and upon future profitable production from the exploration and evaluation assets or proceeds from the disposition of the exploration and evaluation asset.

At October 31, 2012 and October 31, 2011, the Company had an accumulated deficit of \$1,975,267 and \$1,343,122 respectively, which has been funded by the issuance of equity. The Company expects to incur further losses in the development of its business, all of which cast significant doubt on the Company's ability to continue as a going concern. The Company's ability to continue its operations and to realize its assets at their carrying values is dependent upon obtaining additional financing and generating revenues sufficient to cover its operating costs. These financial statements do not give effect to any adjustments which would be necessary should the Company be unable to continue as a going concern and therefore be required to realize its assets and discharge its liabilities in other than the normal course of business and at amounts different from those reflected in the accompanying financial statements.

	October 31, 2012	October 31, 2011	November 1, 2010
Working capital	\$ 242,357	\$ 824,391	\$ 887,694
Deficit	\$ (1,975,267)	\$ (1,343,122)	\$ (349,967)

### 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

#### a) Statement of compliance and basis of presentation

These financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The Company's transition date to IFRS is November 1, 2010. The rules for first-time adoption of IFRS are set out in IFRS 1, "First-time adoption of International Financial Reporting Standards". In preparing the Company's first IFRS financial statements, these transition rules have been applied to the amounts previously reported in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Historical results and balances have been restated under IFRS. An explanation of how the transition from Canadian GAAP to IFRS has affected the reported financial position, financial performance and cash flows of the Company is included in note 12.

These financial statements have been prepared on a historical cost basis, except for certain financial instruments classified at fair value through profit or loss which are stated at their fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

These financial statements of the Company are presented in Canadian dollars unless otherwise indicated, which is the functional currency of the Company.



## **FAIRMONT RESOURCES INC.**

Notes to the Financial Statements  
(Expressed in Canadian Dollars)  
Years ended October 31, 2012 and 2011

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### b) Use of estimates

The preparation of financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amount of expenses during the reporting period. Significant areas requiring the use of management estimates relate to the determination of impairment of exploration and evaluation assets and deferred exploration costs, share-based payments and deferred tax valuation allowance.

Significant assumptions about the future and other sources of estimated uncertainty that management has made at the financial position reporting 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:

- 1) the carrying value and the recoverability of exploration and evaluation assets, which are included in the statements of financial position;
- 2) the inputs used in the accounting for the deferred tax assets / liabilities; and
- 3) the inputs used in the accounting for share-based payment expense included in profit or loss.

#### c) Cash and cash equivalents

The Company considers all highly liquid instruments with a maturity of three months or less when purchased, or which are redeemable at the option of the Company, to be cash equivalents.

#### d) Exploration and evaluation assets

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

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

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

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

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

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

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

e) Income taxes

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantially enacted at the reporting date, and any adjustment to tax payable in respect of previous years. Deferred tax is recognized in respect of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. Deferred tax is not recognized for the following temporary differences: the initial recognition of assets or liabilities in a transaction that is not a business combination and that affects neither accounting nor taxable profit or loss, and differences relating to investments in subsidiaries and jointly controlled entities to the extent that it is probable that they will not reverse in the foreseeable future. In addition, deferred tax is not recognized for taxable temporary differences arising on the initial recognition of goodwill. Deferred tax is measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the laws that have been enacted or substantially enacted by the reporting date.

Deferred tax assets and liabilities are offset if there is a legally enforceable right to offset current tax assets and liabilities, and they relate to income taxes levied by the same tax authority on the same taxable entity, or on different tax entities, but they intend to settle current tax liabilities and assets on a net basis or their tax assets and liabilities will be realized simultaneously.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

f) Impairment

The carrying amounts of the Company's non-financial assets, other than deferred tax assets if any, are reviewed at each reporting date to determine whether there is any indication of impairment. If any such indication exists, then the asset's recoverable amount is estimated.

For the purpose of impairment testing, assets that cannot be tested individually are grouped together into the smallest group of assets that generates cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit" or "CGU"). The recoverable amount of an asset or CGU is the greater of its value in use and its fair value less costs to sell. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. An impairment loss is recognized if the carrying amount of an asset or its CGU exceeds its estimated recoverable amount. Impairment losses are recognized in profit or loss.

Impairment losses recognized in prior periods are assessed at each reporting date for any indications that the loss has decreased or no longer exists. 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 amortization, if no impairment loss had been recognized. A reversal of an impairment loss is recognized immediately in profit or loss.

## **FAIRMONT RESOURCES INC.**

Notes to the Financial Statements

(Expressed in Canadian Dollars)

Years ended October 31, 2012 and 2011

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

#### g) Provision for closure and reclamation

The Company recognizes statutory, contractual or other legal obligations related to the retirement of its exploration and evaluation assets and its tangible long-lived assets when such obligations are incurred, if a reasonable estimate of fair value can be made. These obligations are measured initially at fair value and the resulting costs are capitalized to the carrying value of the related asset. In subsequent periods, the liability is adjusted for any changes in the amount or timing and for the discounting of the underlying future cash flows. The capitalized asset retirement cost is amortized to operations over the life of the asset. Management has determined that there was no provision required for closure and reclamation as at October 31, 2012, October 31, 2011 and November 1, 2010.

#### h) Share-based payments

The Company applies the fair value method to share-based payments and all awards that are direct awards of stock, that call for settlement in cash or other assets or are stock appreciation rights that call for settlement by the issuance of equity instruments. Compensation expense is recognized over the applicable vesting period with a corresponding increase in equity reserves. When the options are exercised, the exercise price proceeds together with the amount initially recorded in equity reserves are credited to share capital.

#### i) Basic and diluted loss per share:

Basic loss per share is computed by dividing the loss available to common shareholders by the weighted average number of common shares outstanding during the year. The computation of the diluted earnings per share assumes the conversion, exercise or contingent issuance of securities only when such conversion, exercise or issuance would have a dilutive effect on the earnings per share. The dilutive effect of convertible securities is reflected in diluted earnings per share by application of the "if converted" method. The dilutive effect of outstanding options and warrants and their equivalents is reflected in diluted earnings per share by application of the treasury stock method. Since the Company has losses the exercise of outstanding options and warrants has not been included in this calculation as it would be anti-dilutive.

#### j) Flow-through shares

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

#### k) Share issue costs

Professional, consulting, regulatory and other costs directly attributable to financing transactions are recorded as deferred financing costs until the financing transactions are completed, if the completion of the transaction is considered likely; otherwise they are expensed as incurred. Share issue costs are charged to share capital when the related shares are issued. Deferred financing costs related to financing transactions that are not completed are charged to operations.

**2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

l) Financial instruments

Financial assets:

All financial assets are initially recorded at fair value and designated upon inception 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 at fair value with unrealized gains and losses recognized through profit or loss. The Company's cash and cash equivalents are classified as FVTPL.

Financial assets classified as loans and receivables and held to maturity assets are measured at amortized cost. 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 provide objective evidence of impairment, which are recognized in earnings. The Company's receivables are classified as loans and receivables.

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.

Financial liabilities:

All financial liabilities are initially recorded at fair value and designated upon inception 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 cost 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 or, where appropriate, a shorter period. The Company's financial liabilities consist of accounts payable, accrued liabilities and due to related parties, which 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 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 profit or loss.

Impairment of financial assets:

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted.

For all financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial re-organization.

## **FAIRMONT RESOURCES INC.**

Notes to the Financial Statements

(Expressed in Canadian Dollars)

Years ended October 31, 2012 and 2011

### **2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

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

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

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 of impairment is reversed does not exceed what the amortized cost would have been had the impairment not be recognized.

#### **m) Comparative figures**

Certain comparative figures have been reclassified to conform with the current year's presentation.

### **3. ACCOUNTING STANDARDS ISSUED FOR ADOPTION IN FUTURE PERIODS**

Accounting Standards issued and effective January 1, 2013

IFRS 10 – *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 replaces the consolidation requirements in SIC-12 – Consolidation – Special Purpose Entities and IAS 27 – Consolidated and Separate Financial Statements. The Company is currently evaluating the impact of IFRS 10 on its financial statements.

IFRS 11 – *Joint Arrangements* requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. The Company is currently evaluating the impact of IFRS 11 on its financial statements.

IFRS 12 *Disclosure of Involvement with Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 Share-based Payment; leasing transactions within the scope of IAS 17 Leases; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

IAS 27 *Separate Financial Statements* has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

## **FAIRMONT RESOURCES INC.**

Notes to the Financial Statements

(Expressed in Canadian Dollars)

Years ended October 31, 2012 and 2011

### **3. ACCOUNTING STANDARDS ISSUED FOR ADOPTION IN FUTURE PERIODS (continued)**

IAS 28 *Investments in Associates and Joint Ventures* prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

Accounting Standards issued and effective January 1, 2015

IFRS 9 – Financial Instruments (“IFRS 9”) will be the new standard for the financial reporting of financial instruments that is principles-based and less complex than IAS 39. The Company is currently evaluating the impact the final standard is expected to have on its financial statements.

### **4. CASH AND CASH EQUIVALENTS**

Cash and cash equivalents include a redeemable guaranteed investment certificate (“GIC”) with an interest rate of prime minus 2.05% per annum and expiring on March 19, 2013. At October 31, 2012, October 31, 2011 and November 1, 2010, the fair value of the GIC was \$200,000, \$750,000 and \$330,000 respectively. At October 31, 2012, there was \$1,299 (October 31, 2011 - \$5,254, November 1, 2010 - \$Nil) in interest receivable that was also included as cash and cash equivalents.

### **5. EXPLORATION AND EVALUATION ASSETS**

#### **Title to exploration and evaluation assets**

Title to exploration and evaluation asset interests involve certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral claims. The Company has investigated title to all of its exploration and evaluation assets and, to the best of its knowledge, title to all of its interests are in good standing. However, this should not be construed as a guarantee of title. The concessions may be subject to prior claims, agreements or transfers and rights of ownership may be affected by undetected defects.

#### **Clay and Powell Properties (Ontario)**

On September 14, 2010, the Company entered into a Letter of Intent with Rainy Mountain Royalty Corp. and Mega Uranium Ltd. (the “Optionors”) for an option to purchase a 70% undivided interest in certain mineral tenures comprising the Powell property and the Clay property (the “Properties”) located near Thunder Bay, Ontario.

The Company may exercise the option by the issuance to the Optionors of 400,000 common shares in the capital stock of the Company, and by incurring a total of \$1,000,000 in exploration and development expenditures on the properties as follows:

**FAIRMONT RESOURCES INC.**

Notes to the Financial Statements  
 (Expressed in Canadian Dollars)  
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**5. EXPLORATION AND EVALUATION ASSETS (continued)****Clay and Powell Properties (Ontario) (continued)**

Date of Completion	Number of Common Shares	Minimum Expenditures
Within 10 days of October 15, 2010 (shares issued at a value of \$35,000)	100,000	\$ -
Before October 15, 2011 (minimum expenditures of \$250,000 incurred) (shares issued at a value of \$11,000)	100,000	250,000
Before October 15, 2012 (minimum expenditures of \$250,000 incurred) (shares issued at a value of \$6,000)	100,000	250,000
Before October 15, 2013	<u>100,000</u>	<u>500,000</u>
	400,000	\$ 1,000,000

In the event that the Company decides to abandon the Option and the Properties, the Company will provide thirty days prior written notice and will provide payment of rental fees for a period of at least six months from the effective date of such abandonment.

Pursuant to the Letter of Intent, the Clay and Powell properties are subject to a 2% net smelter return (“NSR”) royalty of which 1% can be purchased for \$500,000 and the other 1% for \$1,000,000. The Company and the Optionors will pay the amount in proportion to their respective interest in the Properties.

**Marmion South Contact Property (Ontario)**

On January 7, 2011, the Company entered into a letter agreement with an arm’s length party (the “Optionor”) to earn a 100% interest in certain mineral claims known as the Marmion South Contact property. The property is located in the Thunder Bay Mining Division, Ontario. To acquire the 100% interest, the Company agreed to pay \$320,000, issue a total of 750,000 common shares and incur a total of \$1,500,000 in exploration expenditures as follows:

Date of Completion	Cash Payments	Number of Common Shares	Exploration Expenditures
By January 7, 2011 (paid)	\$ 25,000	-	\$ -
On receiving approval from TSX Venture Exchange (issued at a value of \$40,000)	-	100,000	-
By January 7, 2012 (cash payment of \$40,000 made; minimum expenditures of \$150,000 incurred; shares issued at a value of \$24,000)	40,000	150,000	150,000
By January 7, 2013 (Note 14)	60,000	150,000	250,000
By January 7, 2014	75,000	150,000	400,000
By January 7, 2015	<u>120,000</u>	<u>200,000</u>	<u>700,000</u>
	\$ 320,000	750,000	\$ 1,500,000

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**5. EXPLORATION AND EVALUATION ASSETS (continued)****Marmion South Contact Property (Ontario) (continued)**

The Company paid \$13,000 as a finder's fee for the Marmion South Contact acquisition.

The property is subject to a 2.5% NSR royalty. The Company has the right to acquire 50% of the royalty at any time prior to the commencement of commercial production on the property for \$1,000,000.

**Houghton Creek Property (Ontario)**

On July 25, 2012, the Company entered into a letter agreement with an arm's length party (the "Optionor") to earn a 100% interest in certain mineral claims known as the Houghton Creek property. The property is located in the Patricia Mining Division, Ontario. To acquire the 100% interest, the Company agreed to pay \$22,000, issue a total of 225,000 common shares and incur a total of \$150,000 in exploration expenditures as follows:

Date of Completion	Cash Payments	Number of Common Shares	Exploration Expenditures
By July 25, 2012 (paid)	\$ 3,500	-	\$ -
By August 7, 2012 (issued at a value of \$1,750)	-	25,000	-
By July 25, 2013	3,500	25,000	-
By July 25, 2014 (expenditures of \$48,637 incurred)	5,000	75,000	50,000
By July 25, 2015	10,000	100,000	100,000
	\$ 22,000	225,000	\$ 150,000

The property is subject to a 2% NSR royalty. The Company has the right to acquire 50% of the royalty at any time prior to the commencement of commercial production on the property for \$1,000,000.

**Nicoamen River Claims (British Columbia)**

On July 30, 2009, the Company entered into an option agreement to acquire an initial 51% interest in the Nicoamen River Claims located in the Kamloops Mining Division, British Columbia. In order to earn its interest the Company agreed to make \$25,000 cash payments to the optionor and incur \$300,000 in exploration expenditures as follows:

Date of Completion	Cash Payments	Exploration Expenditures
On execution of the Agreement (paid)	\$ 10,000	\$ -
By December 31, 2009 (completed)	-	100,000
Before April 15, 2011 (cash paid in 2010, exploration requirement due date extended to July 31, 2011)	15,000	200,000
	\$ 25,000	\$ 300,000

On February 14, 2011, the Company entered into an amending agreement for the July 30, 2009 option agreement. Pursuant to the option agreement, the Company was required to incur \$200,000 in exploration expenditures on the property by April 15, 2011. The optionor agreed to extend the exploration expenditure deadline from April 15, 2011 to July 31, 2011. As consideration for the amendment, the Company immediately paid the \$15,000 cash obligation that would have been due on April 15, 2011.



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**5. EXPLORATION AND EVALUATION ASSETS (continued)**  
**Nicoamen River Claims (British Columbia) (continued)**

The Company could have acquired an additional 9% interest in the Nicoamen River Claims by issuing 300,000 common shares to the optionor and incurring \$1,700,000 in exploration expenditures.

On June 27, 2011, management decided to terminate its Nicoamen River Claims option agreement. Accordingly, the Company wrote-off \$29,224 in acquisition and \$216,981 in deferred exploration costs related to the Nicoamen River Claims property.

The following acquisition and deferred exploration costs were incurred on the Company's exploration and evaluation assets:

	Clay and Powell	Houghton Creek	Marmion South Contact	Total
Acquisition costs, October 31, 2011	\$ 46,000	\$ -	\$ 78,000	\$ 124,000
Additions during the period	<u>6,000</u>	<u>12,036</u>	<u>64,000</u>	<u>82,036</u>
Acquisition costs, October 31, 2012	<u>52,000</u>	<u>12,036</u>	<u>142,000</u>	<u>206,036</u>
Deferred exploration costs, October 31, 2011	712,930	-	377,589	1,090,519
Additions during the period				
Administration	-	1,223	8,773	9,996
Assays	-	3,152	17,548	20,700
Core cutting	-	-	7,575	7,575
Drilling	-	-	163,875	163,875
Equipment rental	-	6,619	15,161	21,780
Field personnel and expenses	1,068	7,826	36,218	45,112
Geological consulting	9,688	29,817	147,972	187,477
Geophysical	3,220	-	26,655	29,875
Mapping	<u>451</u>	<u>-</u>	<u>-</u>	<u>451</u>
	<u>14,427</u>	<u>48,637</u>	<u>423,777</u>	<u>486,841</u>
Deferred exploration costs, October 31, 2012	<u>727,357</u>	<u>48,637</u>	<u>801,366</u>	<u>1,577,360</u>
Total exploration and evaluation assets, October 31, 2012	\$ 779,357	\$ 60,673	\$ 943,366	\$ 1,783,396

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**5. EXPLORATION AND EVALUATION ASSETS (continued)**

	Clay and Powell	Marmion South Contact	Nicoamen River Claims	Total
Acquisition costs, November 1, 2010	\$ 35,000	\$ -	\$ 29,224	\$ 64,224
Additions during the year	11,000	78,000	-	89,000
Write-off during the year	-	-	(29,224)	(29,224)
Acquisition costs, October 31, 2011	<u>46,000</u>	<u>78,000</u>	<u>-</u>	<u>124,000</u>
Deferred exploration costs, November 1, 2010	-	-	123,412	123,412
Additions during the year				
Administration	8,291	3,199	612	12,102
Assays	43,528	24,401	15,426	83,355
Camp costs	35,364	16,100	3,321	54,785
Consulting	-	-	6,607	6,607
Demobilization	9,668	3,911	445	14,024
Drilling	227,140	-	-	227,140
Equipment rental	29,880	9,426	4,680	43,986
Field expenditures	20,641	3,514	868	25,023
Field personnel	51,632	48,300	22,328	122,260
Geological consulting	140,993	112,996	36,816	290,805
Geophysical	84,726	148,794	-	233,520
Insurance	2,150	-	-	2,150
Line-cutting and surveying	34,506	-	-	34,506
Mapping	3,349	1,192	-	4,541
Mobilization	10,762	3,911	445	15,118
Staking	2,871	-	-	2,871
Storage	450	-	433	883
Transport and freight	4,684	411	1,308	6,403
Travel and related	2,295	1,434	280	4,009
	<u>712,930</u>	<u>377,589</u>	<u>93,569</u>	<u>1,184,088</u>
	<u>712,930</u>	<u>377,589</u>	<u>216,981</u>	<u>1,307,500</u>
Write-off of deferred exploration costs	-	-	(216,981)	(216,981)
Deferred exploration costs, October 31, 2011	<u>712,930</u>	<u>377,589</u>	<u>-</u>	<u>1,090,519</u>
Total exploration and evaluation assets, October 31, 2011	\$ 758,930	\$ 455,589	\$ -	\$ 1,214,519

**6. SHARE CAPITAL**

The authorized share capital consists of an unlimited number of common shares without par value.

*Escrow Shares*

At October 31, 2012, pursuant to an escrow agreement dated December 10, 2009, 337,880 (Oct 31, 2011 – 1,013,620) of the common shares issued and outstanding were held in escrow. These shares are to be released on April 15, 2013.

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

#### *Private Placements*

Year ended October 31, 2012

On March 15, 2012, the Company completed a Private Placement and issued a total of 3,443,333 units at a price of \$0.15 per unit for gross proceeds of approximately \$516,500 (the "Private Placement"). Each unit under the Private Placement is comprised of one common share and one share purchase warrant, with each warrant entitling the holder to purchase one additional common share at a price of \$0.20 per share until March 15, 2014. In connection with the Private Placement, the Company paid finders cash commissions totaling \$50,900 and issued finders a total of 339,333 share purchase warrants valued at \$24,579. Each finder's warrant is exercisable on the same terms described above and expires on March 15, 2014. The fair value of the finder's warrants was determined using the Black Scholes option pricing model with a volatility of 100%, risk free interest rate of 1.73%, expected life of 2 years, and a dividend rate of 0%.

Year Ended October 31, 2011

On March 4, 2011, the Company completed the first tranche of a private placement which was comprised of 3,275,000 Flow-Through Units ("FT Unit") at \$0.40 per FT Unit for gross proceeds of \$1,310,000. An additional \$351,750 was received from the issuance of 1,005,000 Non-Flow-Through Units ("Non FT Units") at \$0.35 per Unit.

On March 15, 2011, the Company completed the second tranche of a private placement by issuing 625,000 Non-Flow-Through Units at \$0.35 per Unit for gross proceeds of \$218,750.

Each FT Unit is comprised of one flow-through common share and one-half of a share purchase warrant. Each whole warrant is exercisable into an additional common share at \$0.50 per share until March 4, 2012 and then at \$0.75 per share until March 4, 2013.

Each Non FT Unit is comprised of one common share and one share purchase warrant. Each warrant is exercisable into an additional common share at \$0.45 per share in the first year and then at \$0.70 in the second year from issuance of the respective warrants.

The Company issued 287,500 finder's units valued at \$50,030 as finder's fees for the first tranche of the private placement. These finder's units are exercisable into units at \$0.40 per unit until March 4, 2013. The finder's units are comprised of one common share and one-half of a share purchase warrant. Each whole warrant is exercisable into an additional common share at \$0.50 per share until March 4, 2012 and then at \$0.75 per share until March 4, 2013. The fair value of the finder's warrants was determined using the Black Scholes option pricing model with a volatility of 100%, risk free interest rate of 1.84%, expected life of 2 years, and a dividend rate of 0%.

The Company paid \$107,940 cash in finder's fees. An additional 178,000 agent warrants valued at \$27,094 were issued as finder's fees, of which 15,000 are exercisable into one common share at \$0.75 per share until March 4, 2013. The remaining 163,000 agent warrants are exercisable into one common share at \$0.45 per share in the first year and then at \$0.70 in the second year from issuance of the respective agent warrants. The fair value of these agents' warrants was determined using the Black Scholes option pricing model with the following weighted average assumptions: volatility of 100%, risk free interest rate of 1.78%, expected life of 2 years, and a dividend rate of 0%.

The Company paid \$67,501 cash for due diligence, filing, legal and other fees directly attributed to the private placement and therefore were allocated as share issuance costs.

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

The Company has a rolling stock option plan under which it is authorized to grant options to directors, employees and consultants, to acquire up to 10% of the issued and outstanding shares. The exercise price of each option is based on the market price of the Company's stock at the date of grant. The options can be granted for a maximum term of 10 years and vest as determined by the board of directors.

The following table summarizes the stock option activity:

	Number of Stock Options	Weighted Average Exercise Price
Balance at November 1, 2010	400,000	\$ 0.15
Granted	1,450,000	0.28
Cancelled	(200,000)	0.15
Exercised	-	-
Balance at October 31, 2011	1,650,000	0.27
Granted	1,200,000	0.15
Cancelled	(1,300,000)	0.31
Exercised	-	-
Balance at October 31, 2012	1,550,000	0.15
Exercisable at October 31, 2012	1,350,000	0.15

As at October 31, 2012, the following incentive stock options are outstanding:

Number of Stock Options	Exercise Price	Expiry Date
100,000	\$ 0.15	December 9, 2014
50,000	0.31	November 3, 2015
200,000	0.115	October 24, 2016
1,050,000	0.15	February 8, 2017
50,000	0.15	February 14, 2017
100,000	0.15	September 26, 2013
1,550,000		

**Share-based payments**

For the year ended October 31, 2012, the total share-based payments calculated for stock options granted under the fair value method was \$123,928 (2011 - \$350,520) using the Black-Scholes option pricing model. For the year ended October 31, 2012, the Company expensed \$121,638 (2011 - \$350,206) for the vesting portion of the stock options to operations.

The following weighted average assumptions were used for the Black-Scholes option-pricing model valuation of stock options granted during the period.

	2012	2011
Risk free interest rate	1.41%	1.97%
Expected life of options	4.67 years	5 years
Expected annualized volatility	100%	100%
Expected dividend rate	0%	0%

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

The following table summarizes the warrants and agent warrants activity.

	Number of Warrants	Weighted Average Exercise Price
Balance at November 1, 2010	1,847,400	\$ 0.31
Agents warrants	465,500	0.42
Private placement warrants	3,267,500	0.48
Exercised warrants	(65,100)	0.22
Expired warrants	(1,555,400)	0.33
Balance at October 31, 2011	3,959,900	0.45
Agents warrants	339,333	0.20
Private placement warrants	3,443,333	0.20
Expired warrants	(226,900)	0.20
Balance at October 31, 2012	7,515,666	0.45

As at October 31, 2012, the following share purchase warrants are outstanding:

Number of Warrants	Exercise Price	Expiry Date
1,005,000	\$ 0.70	March 4, 2013
1,637,500	0.75	March 4, 2013
625,000	0.70	March 15, 2013
3,443,333	0.20	March 15, 2014
6,710,833		

**Agent warrants**

As at October 31, 2012, the following agent warrants are outstanding:

Number of Warrants	Exercise Price	Expiry Date
287,500	\$ 0.40	March 4, 2013
100,500	0.70	March 4, 2013
15,000	0.75	March 4, 2013
62,500	0.70	March 15, 2013
339,333	0.20	March 15, 2014
804,833		

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**7. FLOW-THROUGH SHARE PREMIUM LIABILITY**

	Issued on March 4, 2011
Balance at November 1, 2010	\$ -
Liability incurred on flow-through shares issued March 4, 2011	163,750
Settlement of flow-through share liability upon expenditures being incurred	(108,577)
Balance at October 31, 2011	55,173
Settlement of flow-through share liability upon expenditures being incurred	(55,173)
Balance at October 31, 2012	\$ -

On March 4, 2011, the Company completed the first tranche of a private placement which was comprised of 3,275,000 Flow-Through Units ("FT Unit") at \$0.40 per FT Unit for gross proceeds of \$1,210,000. The premium received on the shares issued was determined to be \$163,750 and has been recorded as a share capital reduction. An equivalent premium liability was recorded and reduced when the required exploration expenditures were incurred.

**8. RELATED PARTY TRANSACTIONS**

In the year ended October 31, 2012 and 2011 the following amounts were paid or accrued to related parties:

- a) Paid or accrued \$Nil (2011 - \$32,500) in management fees to a company controlled by a former director of the Company.
- b) Paid or accrued \$Nil (2011 - \$10,000) in management fees to a company controlled by a former director of the Company.
- c) Paid or accrued \$12,000 (2011 - \$1,000) in management fees to a director of the Company. At October 31, 2011 \$1,000 (November 1, 2010 - \$nil) was payable to this director.
- d) Paid or accrued \$15,000 (2011 - \$20,000) in management fees to a director of the Company.
- e) Paid or accrued \$65,767 (2011 - \$Nil) in management fees to a company controlled by two directors of the Company.
- f) Paid or accrued \$457,430 (2011 - \$Nil) in deferred exploration expenses to a company controlled by two directors of the Company. This amount includes \$163,875 paid to a subcontractor for drilling and \$61,852 in other reimbursable expenses.
- g) Paid or accrued \$Nil (2011 - \$2,854) in consulting fees to a company controlled by a former director of the Company.
- h) Paid or accrued \$Nil (2011 - \$5,817) in deferred exploration costs to a company controlled by a former director of the Company.

At October 31, 2012, \$78,848 (October 31, 2011 and November 1, 2010 - \$nil) in due to related parties was outstanding to a company controlled by two directors of the Company and \$369 (October 31, 2011 and November 1, 2010 - \$nil) in due to related parties was outstanding to an officer of the Company. The amounts owing are unsecured, non-interest bearing and with no stated payment date.

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**8. RELATED PARTY TRANSACTIONS (continued)**

The remuneration of directors and other members of key management personnel, including amounts disclosed above, during the year ended October 31, 2012 and 2011 were as follows:

	October 31, 2012	October 31, 2011
Consulting fees	\$ -	\$ 2,854
Management fees	92,768	63,500
Share-based payments	55,936	52,962
Total	\$ 148,704	\$ 119,316

**9. CAPITAL MANAGEMENT**

The Company considers its capital to be a component of shareholders' equity. The Company's objective when managing capital is to maintain adequate levels of funding to support the development of its businesses and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through debt and equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future.

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

**10. FINANCIAL INSTRUMENTS**

## a) Fair Values

The Company's financial instruments consist of cash and cash equivalents, amounts receivable, accounts payable and accrued liabilities and due to related parties. The fair values of these financial instruments approximate their carrying values because of their current nature.

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

	October 31, 2012	October 31, 2011	November 1, 2010
Fair value through profit or loss (i)	\$ 249,160	\$ 826,159	\$ 975,901
Loans and receivables (ii)	\$ 31,648	\$ 68,710	\$ 11,795
Other financial liabilities (iii)	\$ 108,578	\$ 33,627	\$ 110,002

(i) Cash and cash equivalents

(ii) Amounts receivable

(iii) Accounts payable and accrued liabilities and amounts due to related parties

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.

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**10. FINANCIAL INSTRUMENTS (continued)**

a) Fair Values (continued)

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

Assets	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	\$ 249,160	-	-	\$ 249,160

b) Credit Risk

Credit risk is the risk of loss associated with the counterparty's inability to fulfill its payment obligations. Financial instruments that potentially subject the Company to concentrations of credit risk consist principally of cash and cash equivalents. To minimize the credit risk the Company places these instruments with a high credit quality financial institution.

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined above.

The Company monitors its ability to meet its short-term exploration and administrative expenditures by raising additional funds through share issuances when required. All of the Company's financial liabilities have contractual maturities of 30 days or are due on demand and are subject to normal trade terms. The Company does not have investments in any asset backed deposits.

d) Foreign Exchange Risk

The Company does not have significant foreign exchange risk as most of its transactions are in Canadian dollars.

e) Interest Rate Risk

The Company is not exposed to significant interest rate risk.

f) Price risk

The Company is exposed to price risk with respect to commodity prices. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors the commodity prices of precious metals and the stock market to determine the appropriate course of action to be taken by the Company

**11. SEGMENT INFORMATION**

The Company conducts all of its business activities in Canada, in one reportable operating segment, being the acquisition and exploration of exploration and evaluation assets.



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**12. EXPLANATION OF TRANSITION TO IFRS**

The accounting policies set out in note 2 have been applied in preparing the financial statements for the year ended October 31, 2012, and have been used throughout all periods presented and the opening statement of financial position at the date of transition. The Company applied IFRS 1 in preparing these financial statements. An explanation on how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables and the notes that accompany the tables.

The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS.

## a) Optional exemption

The Company elected to take the IFRS 1 option exemption to apply the requirements of IFRS 2, Share-based Payments, only to equity instruments granted after November 7, 2002, which had not vested as of the Transition Date.

## b) Mandatory exception

## Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition must be consistent with estimates made for the same date under previous Canadian GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of November 1, 2010, are consistent with its Canadian GAAP estimates for the same date.

## c) Reconciliation of Canadian GAAP statements of financial position and comprehensive loss to IFRS

IFRS requires an entity to reconcile equity, comprehensive loss and cash flows for prior periods. The changes made to the statements of financial position and statements of comprehensive loss as shown below have resulted in reclassifications of various amounts on the statements of cash flows, however as there have been no material adjustments to the net cash flows, no reconciliation of the statement of cash flows has been prepared.

There were no adjustments to the statement of financial position at November 1, 2010 on transition to IFRS.

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**12. EXPLANATION OF TRANSITION TO IFRS (continued)**

The Canadian GAAP statement of financial position at October 31, 2011, has been reconciled to IFRS as follows:

	Year ended October 31, 2011		
	Canadian GAAP	Effect of transition to IFRS	IFRS
<b>ASSETS</b>			
<b>Current assets</b>			
Cash and cash equivalents	\$ 826,159	\$ -	\$ 826,159
Amounts receivable	68,710	-	68,710
Prepaid expenses	18,322	-	18,322
	<u>913,191</u>	<u>-</u>	<u>913,191</u>
<b>Non-current assets</b>			
Exploration and evaluation assets	1,214,519	-	1,214,519
	<u>\$ 2,127,710</u>	<u>\$ -</u>	<u>\$ 2,127,710</u>
<b>LIABILITIES AND EQUITY</b>			
<b>Current liabilities</b>			
Accounts payable and accrued liabilities	\$ 32,627	\$ -	\$ 32,627
Due to related parties	1,000	-	1,000
Flow through share premium liability	-	55,173	55,173
	<u>33,627</u>	<u>55,173</u>	<u>88,800</u>
<b>EQUITY</b>			
Share capital (i)	2,997,658	(163,750)	2,833,908
Equity reserves (i)	548,124	-	548,124
Deficit (i)	(1,451,699)	108,577	(1,343,122)
	<u>2,094,083</u>	<u>(55,173)</u>	<u>2,038,910</u>
<b>Total Liabilities and Equity</b>	<u>\$ 2,127,710</u>	<u>\$ -</u>	<u>\$ 2,127,710</u>

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**12. EXPLANATION OF TRANSITION TO IFRS (continued)**

The following reconciliation provides a quantification of the effect of the transition of the statement of comprehensive loss to IFRS:

	<b>Year ended October 31, 2011</b>		
	<b>Canadian GAAP</b>	<b>Effect of transition to IFRS</b>	<b>IFRS</b>
<b>EXPENSES</b>			
Administration	\$ 9,500	\$ -	\$ 9,500
Advertising and promotion	86,358	-	86,358
Audit and accounting	54,518	-	54,518
Consulting	98,767	-	98,767
Insurance	9,239	-	9,239
Investor Relations	96,500	-	96,500
Legal	17,462	-	17,462
Management	63,500	-	63,500
Office and miscellaneous	9,080	-	9,080
Rent	16,500	-	16,500
Registration and transfer fees	21,200	-	21,200
Share based payment (Note 6)	350,206	-	350,206
Travel	25,221	-	25,221
Website	7,765	-	7,765
Total expenses	865,816	-	865,816
		-	
Operating expenses	(865,816)	-	(865,816)
		-	
Write-off of mineral properties	(246,205)		(246,205)
Interest income	10,289	-	10,289
Other income on settlement of flow-through share premium liability	-	108,577	108,577
Comprehensive loss for the period	\$(1,101,732)	\$ 108,577	\$ (993,155)

Explanation for the adjustments are as follows:

(i) Flow-through shares

Under Canadian GAAP, the entire proceeds from the issuance of flow-through shares were recognized in equity less the tax effects of renunciation. Under IFRS, on issuance of flow-through shares, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability and: ii) share capital. Upon expenses being incurred, the Company derecognizes the liability and the premium is recognized as other income.

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**12. EXPLANATION OF TRANSITION TO IFRS (continued)**

As a result, for issuances of flow-through shares for which expenditures have not been incurred, by the end of the reporting period, a liability is shown in “flow-through share premium liability”. This resulted in a liability of \$Nil at October 31, 2012 (October 31, 2011 - \$55,173) and a decrease in share capital of \$163,750 at October 31, 2011. The impact on loss and comprehensive loss for the year ended October 31, 2012, was \$55,173 (2011 - \$108,577).

**13. INCOME TAX**

The following table reconciles the amount of income tax recoverable on application of the combined statutory Canadian federal and provincial income tax rates; with the amount reported:

	2012	2011
Loss before income taxes	\$ (632,145)	\$ (993,155)
Expected income tax benefit based on statutory rate	\$ (159,617)	\$ (266,497)
Permanent differences	17,525	65,142
Change in unrecognized deductible temporary differences	47,000	(58,000)
Change in statutory tax rates	1,407	13,757
Other	93,685	245,598
Total income tax recovery	-	-

The Canadian income tax rate declined during the year due to changes in the law that reduced corporate income tax rates in Canada.

Significant components of the Company’s unrecorded deferred tax assets (liabilities) are as follows:

	2012	2011	Expiry Date
Deferred tax assets (liabilities)			
Share issue costs	\$ 63,000	\$ 74,000	2013 - 2016
Non-capital losses	387,000	222,000	2029 - 2032
Exploration	(372,000)	(265,000)	Not applicable
Unused deferred tax assets	\$ 78,000	\$ 31,000	

The Company has non-capital losses for Canadian income tax purposes of approximately \$1,549,000 which may be carried forward and applied against taxable income in future. No net deferred tax asset has been recognized in respect of the above for the years ended October 31, 2012 and 2011 because the amount of future taxable profit that will be available to realize such assets is not probable.

Tax attributes are subject to review, and potential adjustment, by tax authorities.

**14. SUBSEQUENT EVENT**

Subsequent to the year end, on January 7, 2013, the Optionor of the Marmion property agreed to defer the cash payment of \$60,000 that was due on January 7, 2013 until June 7, 2013. In exchange the 150,000 shares that were to be issued on January 7, 2014 were issued on January 15, 2013 at the same time as the current years share issuance was made.