

**EAGLE MOUNTAIN GOLD CORP.**  
**(Formerly Stronghold Metals Inc.)**  
**Condensed Interim Consolidated Financial Statements (Unaudited)**  
**For the Three Months Ended November 30, 2012 and 2011**  
**(Expressed in Canadian Dollars)**

**NOTICE OF NO AUDITOR REVIEW OF CONDENSED  
CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS**

These condensed interim consolidated financial statements have been prepared by management of the Company and have not been reviewed by the Company's independent auditor. Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

**EAGLE MOUNTAIN GOLD CORP.**  
**(Formerly Stronghold Metals Inc.)**  
**Condensed Interim Consolidated Statements of Financial Position (Unaudited)**

|  | Notes  | November 30,<br>2012 | August 31<br>2012 |
|--|--------|----------------------|-------------------|
| <b>ASSETS</b>                            |        |                      |                   |
| <b>CURRENT</b>                           |        |                      |                   |
| Cash and cash equivalents                | 6      | \$ 436,626           | \$ 37,482         |
| Restricted cash                          | 7      | 34,500               | 31,216            |
| Other receivable                         |        | 203,684              | 207,330           |
| Prepaid expenses and deposits            | 14     | 200,399              | 212,524           |
|  |        | 875,209              | 488,552           |
| <b>Deposits</b>                          | 14     | 95,203               | 104,163           |
| <b>Equipment</b>                         | 8      | 91,484               | 101,661           |
| <b>Mineral properties</b>                | 9 & 10 | 8,421,325            | 8,141,944         |
|  |        | \$ 9,483,221         | \$ 8,836,320      |
| <b>LIABILITIES</b>                       |        |                      |                   |
| <b>CURRENT</b>                           |        |                      |                   |
| Accounts payable and accrued liabilities |        | \$ 527,141           | \$ 1,256,405      |
| Due to related parties                   | 12     | 106,426              | 78,613            |
| Loans payable                            | 13     | 15,500               | 708,544           |
|  |        | 649,067              | 2,043,562         |
| Lease inducement                         |        | 29,700               | 29,700            |
|  |        | 678,767              | 2,073,262         |
| <b>SHAREHOLDERS' EQUITY</b>              |        |                      |                   |
| <b>Capital stock</b>                     | 11     | 16,150,472           | 15,226,711        |
| <b>Subscription receivable</b>           |        | (49,875)             | -                 |
| <b>Reserves</b>                          |        | 10,082,287           | 8,581,556         |
| <b>Cumulative translation adjustment</b> |        | 16,665               | 9,238             |
| <b>Deficit</b>                           |        | (17,237,703)         | (16,953,085)      |
|  |        | 8,961,846            | 6,864,420         |
| Non-controlling interest                 |        | (157,392)            | (101,362)         |
|  |        | 8,804,454            | 6,763,058         |
|  |        | \$ 9,483,221         | \$ 8,836,320      |

Nature of Operations and Going Concern (note 1)  
 Commitments (notes 9 and 14)  
 Subsequent event (note 16)

The condensed interim consolidated financial statements were authorized for issue by the board of directors on January 29, 2013 and were signed on its behalf by:

"Jim Heras"  
 Jim Heras, Director

"Yannis Tsitos"  
 Yannis Tsitos, Director

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

**EAGLE MOUNTAIN GOLD CORP.**  
**(Formerly Stronghold Metals Inc.)**  
**Condensed Interim Consolidated Statement of Comprehensive Loss**  
**For the Three Months Ended November 30, 2012 and 2011 (Unaudited)**

|   | Notes | 2012              | 2011              |
|---|-------|-------------------|-------------------|
| <b>Expenses</b>                                   |       |                   |                   |
| Amortization                                      |       | \$ 2,137          | \$ -              |
| Investor relations                                | 12    | 102,846           | 82,338            |
| Management and consulting fees                    | 12    | 30,000            | 35,200            |
| Office and miscellaneous                          | 12    | 32,143            | 120,177           |
| Professional fees                                 | 12    | 77,345            | 41,842            |
| Salaries, benefits and director fees              | 12    | 71,430            | 68,477            |
| Share-based compensation                          | 11(c) | 31,961            | 275,607           |
| Stock exchange and filing fees                    |       | 16,501            | 8,246             |
| Transfer agent fees                               |       | -                 | 2,060             |
| Travel and promotion                              |       | 6,507             | 100,927           |
| <b>Loss Before Other Items</b>                    |       | <b>370,870</b>    | <b>734,874</b>    |
| <b>Other Items</b>                                |       |                   |                   |
| Interest income                                   |       | (81)              | (8,924)           |
| Interest expense and finance fees                 |       | 4,348             | 45                |
| Foreign exchange loss                             |       | (29,131)          | (2,622)           |
| Net loss for the period                           |       | 346,006           | 723,373           |
| Cumulative translation adjustment                 |       | (12,785)          | -                 |
| <b>Net Loss and Comprehensive Loss for period</b> |       | <b>\$ 333,221</b> | <b>\$ 723,373</b> |
| Net loss attributed to:                           |       |                   |                   |
| Owners of the Company                             |       | \$ 284,618        | \$ 723,373        |
| Non-Controlling interest                          | 10    | 61,388            | -                 |
|   |       | \$ 346,006        | \$ 723,373        |
| Comprehensive loss attributed to:                 |       |                   |                   |
| Owners of the Company                             |       | \$ 277,191        | \$ 723,373        |
| Non-Controlling interest                          | 10    | 56,030            | -                 |
|   |       | \$ 333,221        | \$ 723,373        |
| <b>Loss per share, basic and diluted</b>          |       | <b>\$ 0.01</b>    | <b>\$ 0.06</b>    |
| <b>Weighted average number of common shares</b>   |       |                   |                   |
| <b>outstanding</b>                                |       | <b>23,881,081</b> | <b>12,866,632</b> |

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

**EAGLE MOUNTAIN GOLD CORP.**  
**(Formerly Stronghold Metals Inc.)**  
**Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)**  
**For the Three Months Ended November 30, 2012 and 2011**

|   | Capital Stock |               | Deficit         | Reserves      | Subscriptions<br>receivable | Commitment<br>to Issue<br>Shares | Cumulative<br>Translation<br>Adjustment | Non-<br>Controlling<br>Interest | Total<br>Shareholders'<br>Equity |
|---|---------------|---------------|-----------------|---------------|-----------------------------|----------------------------------|---|---------------------------------|----------------------------------|
|   | Shares        | Amount        |                 |               |                             |                                  |   |                                 |                                  |
| Balance, August 30, 2010  | 9,112,558     | \$ 6,337,856  | (10,604,998)    | \$ 6,416,047  | \$ -                        | \$ -                             | \$ -                                    | \$ -                            | 2,148,905                        |
| Net loss for the period   |               |               | (1,649,038)     |               |                             |                                  |   |                                 | (1,649,038)                      |
| Shares issued for cash  |               |               |                 |               |                             |                                  |   |                                 |                                  |
| Private placements  | 3,116,500     | 6,085,097     |                 | 1,227,903     | (9,900)                     |                                  |   |                                 | 7,303,100                        |
| Exercise of stock options   | 57,000        | 84,000        |                 |               |                             |                                  |   |                                 | 84,000                           |
| Exercise of warrants  | 4,200         | 9,450         |                 |               |                             |                                  |   |                                 | 9,450                            |
| Share issue costs   | -             | (707,010)     |                 | 176,949       |                             |                                  |   |                                 | (530,061)                        |
| Shares issued for non-cash consideration                          |               |               |                 |               |                             |                                  |   |                                 |                                  |
| Mineral properties  | 400,000       | 1,100,000     |                 |               |                             |                                  |   |                                 | 1,100,000                        |
| Reclassification of contributed surplus<br>on exercise of options |               | 56,177        |                 | (56,177)      |                             |                                  |   |                                 |                                  |
| Share-based compensation  |               |               |                 | 104,728       |                             |                                  |   |                                 | 104,728                          |
| Shares to be issued - Finder's fee                                |               |               |                 |               |                             | 235,798                          |   |                                 | 235,798                          |
| Balance, August 30, 2011  | 12,690,258    | 12,965,570    | (12,254,036)    | 7,869,450     | (9,900)                     | 235,798                          | -                                       | -                               | 8,806,882                        |
| Net loss for the period   |               |               | (723,373)       |               |                             |                                  |   |                                 | (723,373)                        |
| Shares issued for non-cash consideration                          |               |               |                 |               |                             |                                  |   |                                 |                                  |
| Mineral properties  | 450,000       | 668,750       |                 |               |                             |                                  |   |                                 | 668,750                          |
| Share-based compensation  |               |               |                 | 275,607       |                             |                                  |   |                                 | 275,607                          |
| Balance, November 30, 2011  | 13,140,258    | 13,634,320    | (12,977,409)    | 8,145,057     | (9,900)                     | 235,798                          | -                                       | -                               | 9,027,866                        |
| Balance, August 30, 2011  | 12,690,258    | 12,965,570    | (12,254,036)    | 7,869,450     | (9,900)                     | 235,798                          | -                                       | -                               | 8,806,882                        |
| Net loss for the period   |               |               | (4,699,049)     |               |                             |                                  |   | (737,660)                       | (5,436,709)                      |
| Share issue costs   |               | (6,479)       |                 |               |                             |                                  |   |                                 | (6,479)                          |
| Shares issued for non-cash consideration                          |               |               |                 |               |                             |                                  |   |                                 |                                  |
| Mineral properties  | 2,077,022     | 2,214,420     |                 |               |                             | (235,798)                        |   |                                 | 1,978,622                        |
| Interest  | 280,000       | 53,200        |                 |               |                             |                                  |   | 75,829                          | 129,029                          |
| Net assets acquired in transactions                               |               |               |                 |               |                             |                                  |   | 553,804                         | 553,804                          |
| Other reserve   |               |               |                 | 337,467       |                             |                                  |   |                                 | 337,467                          |
| Cumulative translation adjustment                                 |               |               |                 |               |                             |                                  | 9,238                                   | 6,665                           | 15,903                           |
| Share-based compensation  |               |               |                 | 374,639       |                             |                                  |   |                                 | 374,639                          |
| Share subscription  |               |               |                 |               | 9,900                       |                                  |   |                                 | 9,900                            |
| Balance, August 31, 2012  | 15,047,280    | 15,226,711    | (16,953,085)    | 8,581,556     | -                           | -                                | 9,238                                   | (101,362)                       | 6,763,058                        |
| Net loss for the period   |               |               | (284,618)       |               |                             |                                  |   | (61,388)                        | (346,006)                        |
| Shares issued for cash:   |               |               |                 |               |                             |                                  |   |                                 |                                  |
| Private placement   | 18,800,000    | 2,566,500     |                 |               |                             |                                  |   |                                 | 2,566,500                        |
| Fair value of warrants  |               | (1,468,770)   |                 | 1,468,770     |                             |                                  |   |                                 | -                                |
| Share issuance costs  |               | (173,969)     |                 |               |                             |                                  |   |                                 | (173,969)                        |
| Share-based compensation  |               |               |                 | 31,961        |                             |                                  |   |                                 | 31,961                           |
| Cumulative translation adjustment                                 |               |               |                 |               |                             |                                  | 7,427                                   | 5,358                           | 12,785                           |
| Shares subscription receivable                                    |               |               |                 |               | (49,875)                    |                                  |   |                                 | (49,875)                         |
| Balance, November 30, 2012  | 33,847,280    | \$ 16,150,472 | \$ (17,237,703) | \$ 10,082,287 | \$ (49,875)                 | \$ -                             | \$ 16,665                               | \$ (157,392)                    | \$ 8,804,454                     |

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

**EAGLE MOUNTAIN GOLD CORP.**  
**(Formerly Stronghold Metals Inc.)**  
**Condensed Interim Consolidated Statements of Cash Flows (Unaudited)**  
**For the Three Months Ended November 30, 2012 and 2011**

|   | 2012              | 2011               |
|---|-------------------|--------------------|
| <b>Operating Activities</b>   |                   |                    |
| Net loss for the period   | \$ (346,006)      | \$ (723,373)       |
| Add items not affecting cash:   |                   |                    |
| Amortization  | 2,137             | -                  |
| Share-based compensation  | 31,961            | 275,607            |
| Unrealized foreign exchange loss  | 7,427             | -                  |
| Non-controlling interest of translation adjustment                      | 5,358             | -                  |
| Net changes in non-cash working capital items                           |                   |                    |
| Accounts payable and accrued liabilities                                | (729,264)         | (189,712)          |
| Other receivable  | 3,646             | (5,502)            |
| Tax recoverable   | -                 | 15,006             |
| Prepaid expenses  | 12,125            | (34,533)           |
| Deposits  | 8,960             | 108,231            |
| Amounts due to related parties  | 27,813            | (22,459)           |
| <b>Cash Used in Operating Activities</b>                                | <b>(975,843)</b>  | <b>(576,735)</b>   |
| <b>Financing Activities</b>   |                   |                    |
| Restricted cash   | (3,284)           | -                  |
| Loans payable   | (693,044)         | -                  |
| Shares issued for cash  | 2,392,531         | -                  |
| Subscriptions receivable  | (49,875)          | -                  |
| <b>Cash Provided by Financing Activities</b>                            | <b>1,646,328</b>  | <b>-</b>           |
| <b>Investing Activities</b>   |                   |                    |
| Purchase of equipment   | 4,012             | (90,103)           |
| Expenditures on mineral properties                                      | (275,353)         | (1,757,090)        |
| Exploration advances  | -                 | (58,875)           |
| <b>Cash Used in Investing Activities</b>                                | <b>(271,341)</b>  | <b>(1,906,068)</b> |
| <b>Inflow (Outflow) of Cash</b>   | <b>399,144</b>    | <b>(2,482,803)</b> |
| <b>Cash and Cash Equivalents, Beginning of Period</b>                   | <b>37,482</b>     | <b>3,172,856</b>   |
| <b>Cash and Cash Equivalents, End of Period</b>                         | <b>\$ 436,626</b> | <b>\$ 690,053</b>  |
| <b>Supplemental Cash Flow Information:</b>                              |                   |                    |
| Interest paid   | \$ 4,348          | \$ 45              |
| Shares issued for mineral properties                                    | \$ -              | \$ 668,750         |
| Mineral properties included in account payables and accrued liabilities | \$ 53,458         | \$ 391,766         |

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

# **EAGLE MOUNTAIN GOLD CORP.**

**(Formerly Stronghold Metals Inc.)**

**Notes to Condensed Interim Consolidated Financial Statements (Unaudited)**

**For the Three Months Ended November 30, 2012 and 2011**

**(Expressed in Canadian dollars)**

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

The Company was incorporated under the laws of the province of British Columbia on October 16, 2003. The Company is an exploration stage company and is in the business of acquiring, exploring and developing mineral properties. The Company's principal office is located at 1220 – 1066 West Hastings Street, Vancouver, British Columbia, V6E 3X1.

Effective July 26, 2012, the Company changed its name to Eagle Mountain Gold Corp. and consolidated its common shares on a one-for-five basis. All figures as to the numbers of common shares, stock options, warrants, as well as loss per share in these financial statements are consolidated amounts and have been retroactively restated to present the post-consolidation amounts.

These condensed Interim consolidated financial statements are prepared on a "going concern" basis, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company does not currently hold any revenue-generating properties and incurred losses of \$284,618 for the three months ended November 30, 2012 (2011 - \$723,373). The Company has an accumulated deficit of \$17,237,703 as of November 30, 2012 (August 31, 2012 - \$16,953,085) and a working capital of \$226,142 (August 31, 2012 - \$1,555,010 working capital deficit).

The ability of the Company to continue as a going concern and meet its commitments as they become due, including exploration, evaluation and development of its mineral interests, is dependent on the Company's ability to obtain the necessary financing and ultimately upon its success in locating properties with economically recoverable resources and attaining either profitable operations from those properties or the proceeds from the disposition of those properties. The Company has not yet determined whether its properties contain mineral reserves that are economically recoverable. Management is planning to raise additional capital to finance operations and expected growth, and is looking at strategies to partner or dispose of its mineral interests (see notes 9 and 10).

These condensed interim consolidated financial statements do not reflect any adjustments that would be necessary if the going concern assumption were not appropriate.

## **2. BASIS OF PRESENTATION**

### **(a) Statement of Compliance**

These condensed interim consolidated financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"). Specifically, they have been prepared in accordance with International Accounting Standard (IAS) 34, Interim Financial Reporting. The condensed interim consolidated financial statements do not include all of the information required for annual financial statements and should be read in conjunction with the audited consolidated financial statements for the year ended August 31, 2012.

The accounting principles applied in the preparation of these consolidated financial statements included herein have been applied consistently for each of the periods presented. The condensed interim consolidated financial statements were approved and authorized for issue by the Board of Directors on January 29, 2013.

## **EAGLE MOUNTAIN GOLD CORP.**

(Formerly Stronghold Metals Inc.)

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the Three Months Ended November 30, 2012 and 2011

(Expressed in Canadian dollars)

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### **2. BASIS OF PRESENTATION (Continued)**

#### **(b) Basis of preparation**

These condensed interim consolidated financial statements have been prepared on a historical cost basis, except for certain financial instruments, which are recorded at fair value. In addition, they have been prepared using the accrual method of accounting except for cash flow information.

#### **(c) Principles of consolidation**

These condensed interim consolidated financial statements include the accounts of the Company and its integrated wholly-owned subsidiaries, Acarat (Chile) S.A. and Stronghold Guyana Inc.; and the accounts of its controlled subsidiaries Kensington Court Ventures Inc. and Stronghold Brasil Mineracao Ltda (formerly Mineracao Vale Do Sonho Ltda) ("Stronghold Brazil") (note 10). All intercompany transactions and balances have been eliminated on consolidation.

Non-controlling interests in the net assets of consolidated partially-owned Kensington are identified separately from the Company's entity. The non-controlling interest consists of the non-controlling interest as at the date of the original acquisition plus the non-controlling interest's share of changes in equity since the date of acquisition.

#### **(d) Use of estimates**

The preparation of consolidated financial statements in conformity with IFRS requires management to make certain critical accounting estimates and assumptions, which affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities at the date of the consolidated financial statements, and the reported amounts of revenue and expenses during the reporting period.

Significant areas requiring the use of management judgments and estimates relate to determination of impairment of mineral property interests, the determination of site closure and reclamation provisions, rates of amortization on equipment, the variables used in the determination of fair value of stock options granted and of warrants issued, and the recoverability and measurement of deferred income tax assets. While management believes the estimates are reasonable, actual results could differ from those estimates and could impact future results of operations and cash flows.

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

#### **(a) Financial instruments**

All financial instruments are classified as one of the following categories: financial assets at fair value through profit or loss ("FVTPL"), available-for-sale ("AFS") financial assets, held-to-maturity financial assets, loans and receivables, and financial liabilities are classified as other financial liabilities.

##### *FVTPL:*

FVTPL financial assets are initially recognized at fair value with changes in fair value recorded through profit or loss. Cash is included in this category of financial assets.



## **EAGLE MOUNTAIN GOLD CORP.**

(Formerly Stronghold Metals Inc.)

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the Three Months Ended November 30, 2012 and 2011

(Expressed in Canadian dollars)

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

#### (a) Financial instruments (continued)

##### *AFS financial assets:*

AFS financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any of the previous categories and are recognized at fair value and subsequently carried at fair value. Changes in the fair value of AFS financial assets other than impairment losses are recognized as other comprehensive loss and classified as a component of equity.

##### *Held-to-maturity financial assets:*

If the Company has the positive intent and ability to hold debt securities to maturity, then such financial assets are classified as held-to-maturity. Held-to-maturity financial assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, held-to-maturity financial assets are measured at amortized cost using the effective interest method, less any impairment losses. The Company has no financial assets as at November 30, 2012 and August 31, 2012, 2010 classified as held-to-maturity.

##### *Loans and receivables:*

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses. Loans and receivables are comprised of other receivables and due from related parties.

##### *Other liabilities:*

The Company classifies non-derivative financial liabilities as other financial liabilities. Such financial liabilities are recognized initially at fair value plus any directly attributable transaction costs. Subsequently, these financial liabilities are measured at amortized cost using the effective interest rate method. Other financial liabilities comprise accounts payable and accrued liabilities, loans payable and due to related parties.

##### *Impairment of financial assets:*

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

#### (b) Mineral properties and exploration costs

Costs incurred before the legal rights to undertake exploration and evaluation activities were acquired are expensed as incurred. The Company capitalizes all costs related to mineral properties on a property-by-property basis. Such costs include mineral property acquisition costs, exploration, evaluation and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed, the property is sold or the Company's mineral rights are allowed to lapse.

## EAGLE MOUNTAIN GOLD CORP.

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Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the Three Months Ended November 30, 2012 and 2011

(Expressed in Canadian dollars)

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

#### (b) Mineral properties and exploration costs (continued)

From time to time, the Company may acquire or dispose of a mineral property interest pursuant to the terms of an option agreement. As such, options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable are not recorded at the time of the agreement. Option payments are recorded as property costs or recoveries when the payments are made or received. At the development stage, as when the mineral reserves are proven or the permit to operate the mineral property are received and financing to complete the development has been obtained, the capitalized costs of mineral property interests will be amortized on the unit-of-production method based upon estimated proven and probable reserves.

All capitalized mineral property acquisition expenditures are reviewed at each reporting date, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the property for an amount exceeding the carrying value, provision is made for the impairment in value. The amounts capitalized for mineral properties represent costs incurred to date less write-downs, and are not intended to reflect present or future values.

#### (c) Site rehabilitation obligations

Site rehabilitation obligations are recognized when a legal or constructive obligation arises. The liability is recognized at the present value of management's best estimate of the site rehabilitation obligation. The estimate is discounted to the present value using a discount rate specific to the obligation. When the liability is initially recorded the Company capitalizes the cost by increasing the carrying amount of the related long-lived assets. The liability is accreted to its present value at each reporting period, and the capitalized cost is amortized on the same basis as the related asset. Upon settlement of the liability, the Company may incur a gain or loss.

#### (d) Equipment

Equipment is recorded at cost less accumulated amortization. Amortization of equipment is recorded on those items that have been put into service. Amortization is calculated on a declining-balance basis at the following annual rates:

|                                |            |
|--------------------------------|------------|
| Office furniture and equipment | 20% to 50% |
| Vehicles                       | 25%        |

Additions during the period are amortized on a pro-rated basis. Amortization on the equipment related to the mineral properties is capitalized under mineral properties.

Leasehold improvements are recorded at cost. Amortization is calculated using the straight-line method over the term of the lease.

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**Notes to Condensed Interim Consolidated Financial Statements (Unaudited)**

**For the Three Months Ended November 30, 2012 and 2011**

**(Expressed in Canadian dollars)**

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

#### **(e) Basic and diluted loss per share**

Loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on earnings per share is calculated presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the year. However, the calculation of diluted loss per share excludes the effects of various conversions including the exercise of options and warrants that would be anti-dilutive.

#### **(f) Share-based payments**

The Company has a stock option plan as disclosed in note 11. The Company uses a fair value based method of accounting for stock options to directors, employees and non-employees. The fair value is determined using the Black-Scholes option pricing model with assumptions for risk-free interest rate, volatility, expected forfeiture and life of the options or warrants. For directors and employees, the fair value of the options is measured at the date of grant. For non-employees, the fair value of the options is 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. Stock options with graded vesting schedules are accounted for as separate grants with different vesting periods and fair values. Upon exercise of share purchase options, the applicable amounts from share-based reserve are transferred to capital stock.

#### **(g) Income taxes**

The Company uses the asset and liability method of accounting for income taxes. Under this method, current and deferred taxes are recognized in profit or loss, except to the extent that it relates to a business combination, or items recognized directly in equity or in other comprehensive income. Deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities, and their respective tax basis. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in operations in the period that includes the enactment date.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized.

#### **(h) Capital stock**

The proceeds from the issuance of units are allocated between common shares and common share purchase warrants on a pro-rata basis based on relative fair values using the market trading price and the Black-Scholes option pricing model for the common shares and warrants, respectively.

Incremental costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects.

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### 3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Cash and cash equivalents

Cash and cash equivalents includes all cash balances and highly liquid investments that are readily convertible into known amounts of cash and that have an initial maturity of three months or less from the original date of acquisition.

(j) Foreign currency

The consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the Company. Transactions in currencies other than the functional currency are translated into Canadian dollars on the following bases:

- monetary assets and liabilities at the rate of exchange in effect at the consolidated statement of financial position date;
- non-monetary assets and liabilities at the rates of exchange in effect on the respective dates of transactions; and
- revenue and expenses (excluding amortization, which is translated at the same rate as the related asset), at the exchange rates in effect on the date of the transaction.

Gains and losses arising from this translation of foreign currency are included in the determination of net loss.

(k) Accounting standards issued but not yet adopted

Certain new accounting standards and interpretations have been issued but are not applicable for the November 30, 2012 reporting period.

*IFRS 9: Financial Instruments*

The standard was issued in November 2009, and amended in October 2010, as the first step to replace IAS 39: *Financial Instruments: Recognition and Measurement*. IFRS 9 retains but simplifies, the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on an entity's business model and the contractual cash flow of the financial asset. Classification is made at the time the financial asset is initially recognized, namely when the entity becomes a party to the contractual provisions of the instrument.

IFRS 9 also amends some of the requirements of IFRS 7: *Financial Instruments: Disclosures*, including added disclosures about investments in equity instruments measured at fair value in other comprehensive income/loss and guidance on financial liabilities and de-recognition of financial instruments. The effective date for the Company of IFRS 9 is July 1, 2015, with early adoption permitted.

*IFRS 10: Consolidated Financial Statements*

The standard provides additional guidance to assist the determination of control and whether an entity should be included within the consolidated financial statements of the parent company. This new standard is applicable for periods beginning on July 1, 2013, with early adoption permitted.

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

(k) Accounting standards issued but not yet applied (continued)

*IFRS 11: Joint Arrangements*

The standard was issued in May 2011 to replace IAS 31: *Interests in Joint Ventures*. The new standard defines two types of arrangements: Joint Operations and Joint Ventures. Focus is on the rights and obligations of the parties involved to reflect the joint arrangement, thereby requiring parties to recognize the individual assets and liabilities to which they have rights or for which they are responsible, even if the joint arrangement operates in a separate legal entity. IFRS 11 is effective commencing July 1, 2013, with early adoption permitted.

*IFRS 12: Disclosure of Interests in Other Entities*

The standard was issued in May 2011 to create a comprehensive disclosure standard to address the requirements for subsidiaries, joint arrangements and associates including the reporting entity's involvement with other entities. It also includes the requirements for unconsolidated structured entities (i.e., special purpose entities). IFRS 12 is effective commencing July 1, 2013, with early adoption permitted.

*IFRS 13: Fair Value Measurement*

The standard was issued in May 2011 as a single source of guidance for all fair value measurements required by IFRS to reduce the complexity and improve consistency across its application. The standard provides a definition of fair value and guidance on how to measure fair value as well as a requirement for enhanced disclosures. IFRS 13 is effective commencing July 1, 2013, with early adoption permitted.

*IAS 28: Investments in associates and Joint Ventures*

The standard was amended in 2011 and 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 is effective commencing July 1, 2013, with early adoption permitted. If the Company applies this standard earlier, it must disclose that fact and apply IFRS 10, IFRS 11 and IFRS 12 at the same time.

The Company is currently assessing the impact of adopting the above future accounting standards changes on its consolidated financial statements.

**4. CAPITAL MANAGEMENT**

The Company's objectives in managing its capital are as follows:

- To safeguard its ability to continue as a going concern; and
- To have sufficient capital to be able to meet its strategic objectives including the continued exploration of its mineral projects and the identification of additional projects.

The Company considers capital to be all components of shareholders' equity of the Company. The Company manages its capital structure in accordance with its strategic objectives and changes in economic conditions.

The Company has no externally imposed capital requirements. There have been no changes to the Company's approach to capital management during the period ended November 30, 2012.

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### **5. FINANCIAL INSTRUMENTS**

The Company classifies its cash and cash equivalents as held-for-trading; and accounts payable, loans payable and due to related parties as other financial liabilities. Instruments classified as held-for-trading are measured at fair value with realized gains and losses recognized in profit or loss.

The Company's risk exposure and the impact on the Company's financial instruments are summarized below.

#### **(a) Fair value**

The carrying values of cash and cash equivalents, restricted cash and accounts payable approximate their fair values due to the short-term nature of these financial instruments.

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

Credit risk is the risk that a counterparty to a financial instrument fails to meet its financial obligations. The Company's exposure to credit risk is principally its cash and cash equivalents. The Company mitigates this risk by placing its cash and cash equivalents in major Canadian banks and subsidiaries of Canadian banks located in Guyana and Chile. The Company's exposure to credit risk is not considered significant.

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

Liquidity risk is the risk that the Company will encounter difficulty in meeting its financial obligations as they become due. The Company manages its liquidity risk by forecasting cash flows required by operations and anticipated investing and financing activities. At November 30, 2012, the Company had accounts payable totalling \$527,141 (August 31, 2012 - \$1,256,405), due within three months of period-end, amounts due to related parties of \$106,426 (August 31, 2012 - \$78,613), with no stated terms of repayment, and loans payable of \$15,500 repayable within the next three months (August 31, 2012 - \$708,544),

#### **(d) Market risk**

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk is comprised of three types of risk: interest rate risk, foreign currency risk and other price risk.

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

The Company's cash and cash equivalents consists of cash held in bank accounts and a guaranteed investment certificate ("GIC") that earns interest at variable interest rates. Due to the short-term nature of these financial instruments, fluctuations in interest rates will not have a significant impact on the fair value or future cash flows of the cash and cash equivalents of the Company.

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**5. FINANCIAL INSTRUMENTS (Continued)**

(d) Market risk (continued)

(ii) Foreign currency risk

The Company is exposed to foreign currency fluctuations to the extent financial instruments are not denominated in Canadian dollars. The Company has operations in Chile, Brazil and Guyana. As at November 30, 2012 and August 31, 2012, the Company had monetary net assets and net liabilities in foreign currency (expressed in Canadian dollars) as follows:

|                | November 30, 2012      |                             | August 31, 2012        |                             |
|----------------|------------------------|-----------------------------|------------------------|-----------------------------|
|                | Monetary<br>Net Assets | Monetary Net<br>Liabilities | Monetary<br>Net Assets | Monetary Net<br>Liabilities |
| Chilean pesos  | \$ -                   | \$ -                        | \$ -                   | \$ -                        |
| Guyana dollars | 172,096                | 46,634                      | 166,158                | 677                         |
| Brazil real    | -                      | -                           | -                      | -                           |
| US dollars     | -                      | -                           | -                      | -                           |
|                | <b>\$ 172,096</b>      | <b>\$ 46,634</b>            | <b>\$ 166,158</b>      | <b>\$ 677</b>               |

Based on the above net foreign currency exposure as at November 30, 2012, a 10% increase (decrease) in the value of the foreign currencies against the Canadian dollar would increase or decrease the Company's net loss and comprehensive loss by \$12,546 for the period ended November 30, 2012 (August 31, 2012 - \$16,548). The Company has not entered into any foreign currency contracts to mitigate this risk.

(iii) Other price risk

The Company is not exposed to significant other price risk.

**6. CASH AND CASH EQUIVALENTS**

As at November 30, 2012, the Company's cash and cash equivalents balance consists of cash of \$436,626.(August 31, 2012 - cash of \$37,482).

**7. RESTRICTED CASH**

As at November 30, 2012, the Company had a total of \$34,500 (August 31, 2012 - \$3,450) in GIC, which bears interest at prime minus 1.85%. The GIC is held as collateral for corporate credit cards with the Bank of Montreal. The Company's restricted cash balance also consists of \$nil (August 31, 2012 - \$27,766) in a security deposit received for its office space.

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**8. EQUIPMENT**

|                                 | Office Furniture<br>and Equipment | Vehicles  | Leasehold<br>Improvements | Total      |
|---------------------------------|-----------------------------------|-----------|---------------------------|------------|
| <b>Cost</b>                     |                                   |           |                           |            |
| Balance, August 31, 2011        | \$ 23,999                         | \$ 29,206 | \$ -                      | \$ 53,205  |
| Additions                       | 10,356                            | 43,550    | 42,811                    | 96,717     |
| Disposals                       | -                                 | (25,405)  | -                         | (25,405)   |
| Balance, August 31, 2012        | 34,355                            | 47,351    | 42,811                    | 124,517    |
| Disposals                       | -                                 | -         | (4,012)                   | (4,012)    |
| Balance, November 30, 2012      | \$ 34,355                         | \$ 47,351 | \$ 38,799                 | \$ 120,505 |
| <b>Accumulated amortization</b> |                                   |           |                           |            |
| Balance, August 31, 2011        | \$ 1,664                          | \$ 6,996  | \$ -                      | \$ 8,660   |
| Charge for the year             | 4,061                             | 16,409    | 3,518                     | 23,988     |
| Disposals                       | -                                 | (9,792)   | -                         | (9,792)    |
| Balance, August 31, 2012        | 5,725                             | 13,613    | 3,518                     | 22,856     |
| Charge for the period           | 1,862                             | 2,374     | 1,929                     | 6,165      |
| Balance, November 30, 2012      | \$ 7,587                          | \$ 15,987 | \$ 5,447                  | \$ 29,021  |
| <b>Carrying amounts</b>         |                                   |           |                           |            |
| August 31, 2012                 | \$ 28,630                         | \$ 33,738 | \$ 39,293                 | \$ 101,661 |
| November 30, 2012               | \$ 26,768                         | \$ 31,364 | \$ 33,352                 | \$ 91,484  |



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## 9. MINERAL PROPERTIES

|                                      | Seneca<br>Canada | Combarbala<br>Chile | Tucumã<br>Brazil | Eagle<br>Mountain<br>Guyana | Mowasi<br>Guyana | Total        |
|--------------------------------------|------------------|---------------------|------------------|-----------------------------|------------------|--------------|
| Balance, August 31, 2011             | \$ 1             | \$ 1                | \$ 2,056,177     | \$ 3,837,658                | \$ 8,620         | \$ 5,902,457 |
| Additions - acquisition costs        |                  |                     |                  |                             |                  |              |
| Acquisition – cash                   | -                | -                   | -                | 100,000                     | 128,334          | 228,334      |
| Option payments – shares             | -                | -                   | -                | 1,906,894                   | 68,750           | 1,975,644    |
| Other acquisition expenses           | -                | -                   | -                | 19,200                      | 10,256           | 29,456       |
| Impairment                           | (1)              | (1)                 | -                | -                           | -                | (2)          |
| Total acquisition costs for year     | (1)              | (1)                 | -                | 2,026,094                   | 207,340          | 2,233,432    |
| Additions-deferred exploration costs |                  |                     |                  |                             |                  |              |
| Analytical                           | -                | -                   | 35,461           | 123,137                     | -                | 158,598      |
| Amortization                         | -                | -                   | -                | 20,877                      | -                | 20,877       |
| Drilling                             | -                | -                   | 53,876           | 625,158                     | -                | 679,034      |
| Equipment rental                     | -                | -                   | 10,203           | 170,520                     | -                | 180,723      |
| report                               | -                | -                   | 94,205           | -                           | -                | 94,205       |
| Labour                               | -                | -                   | -                | 540,594                     | -                | 540,594      |
| Professional fees                    | -                | 25,675              | -                | -                           | -                | 25,675       |
| Repairs and maintenance              | -                | -                   | -                | 50,561                      | -                | 50,561       |
| Travel and field expenses            | -                | 12,678              | 106,355          | 125,343                     | -                | 244,376      |
| Others                               | -                | 5,445               | 102,764          | 338,949                     | -                | 447,158      |
| Taxes                                | -                | -                   | 228,555          | -                           | -                | 228,555      |
| Total expenditures for year          | -                | 43,798              | 631,419          | 1,995,139                   | -                | 2,670,356    |
| Impairment                           | -                | (43,798)            | (2,620,503)      | -                           | -                | (2,664,301)  |
| Balance, August 31, 2012             | -                | -                   | 67,093           | 7,858,891                   | 215,960          | 8,141,944    |
| Additions-deferred exploration costs |                  |                     |                  |                             |                  |              |
| Amortization                         | -                | -                   | -                | 4,028                       | -                | 4,028        |
| Drilling                             | -                | -                   | -                | 9,000                       | -                | 9,000        |
| Labour                               | -                | -                   | -                | 134,293                     | -                | 134,293      |
| Professional fees                    | -                | -                   | -                | 10,986                      | -                | 10,986       |
| Repairs and maintenance              | -                | -                   | -                | 3,334                       | -                | 3,334        |
| Travel and field expenses            | -                | -                   | 258              | 30,203                      | -                | 30,461       |
| Others                               | -                | -                   | 19,060           | 68,219                      | -                | 87,279       |
| Total expenditures for period        | -                | -                   | 19,318           | 260,063                     | -                | 279,381      |
| Impairment                           | -                | -                   | -                | -                           | -                | -            |
| Balance, November 30, 2012           | \$ -             | \$ -                | \$ 86,411        | \$ 8,118,954                | \$ 215,960       | \$ 8,421,325 |

### Eagle Mountain Property

Pursuant to a definitive Earn-In and Joint Venture Agreement with a subsidiary of IAMGOLD Corporation (“IAMGOLD”) dated September 15, 2010, and subsequently amended in January 2012, the Company has been granted the right to acquire in stages up to 100% in the Eagle Mountain property, located in Guyana, South America, by paying an aggregate US\$1,600,000, issuing an aggregate 2,300,000 common shares of the Company, and expending US\$3,500,000 in exploration expenditures. Of the total cash payment, US\$1,000,000 may be paid in common shares of the Company at the option of the Company. The Eagle Mountain property is owned by Omai Gold Mines Ltd. (“OGML”), a 95% owned subsidiary of IAMGOLD, with the Republic of Guyana holding the remaining 5%.

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### 9. MINERAL PROPERTIES (Continued)

#### Eagle Mountain Property (continued)

To acquire a 50% interest, the Company agreed to pay OGML \$600,000 (paid), issue a 800,000 common shares (issued) of the Company and fund total exploration expenditures of US\$3,500,000 (completed).

The Company may earn a further 50% (100% in aggregate) by paying an additional US\$1,000,000 by April 30, 2013. Once the Company has satisfied the above requirements, the Company will either be issued, or have assigned, transferred or conveyed to it, such number of shares in the capital of OMGL as will constitute it the registered and beneficial owner of 95% of OMGL's entire issued capital stock, once such shares have been issued.

The terms of the Agreement as amended are summarized in the table below:

|   | Cash Payments<br>US\$                       | Common<br>Shares                 | Expenditures<br>US\$     |
|---|---|----------------------------------|--------------------------|
| On signing the Agreement  | \$ 500,000<br>(paid)                        | 400,000<br>(issued)              | \$ 400,000<br>(incurred) |
| Obligations completed prior to the<br>amending agreement dated January 12, 2012   | 100,000<br>(paid)                           | 400,000<br>(issued)              | 3,100,000<br>(incurred)  |
| Additional consideration to earn the first 50%<br>interest                        | 600,000<br>-                                | 800,000<br>1,500,000<br>(issued) | 3,500,000<br>-           |
| To earn remaining 45% interest (note 1)<br>(net of 5% held by Republic of Guyana) | 600,000<br>1,000,000<br>(by April 30, 2013) | 2,300,000<br>-                   | 3,500,000<br>-           |
| <b>Total</b>  | <b>\$ 1,600,000</b>                         | <b>2,300,000</b>                 | <b>\$ 3,500,000</b>      |

*Note 1:* The Company has the option to issue common shares in lieu of cash payment provided such issue of shares does not result in OGML controlling in excess of 19.99% of the Company.

In addition, upon the grant of a mining or exploration license by the Government of Guyana, the Company has agreed to pay an additional US\$3,500,000 for which the Company may, at its sole option, elect to issue shares to OGML at a fair value of US\$3,500,000. The number of common shares is determined by 95% of the Company's share prices during the 20 trading days before the date the Company notifies OGML of its intention to issue such shares, provided such shares does not result in OGML controlling in excess of 19.99% of the Company. After the commencement of commercial production of gold from the property, the Company has agreed to pay a further US\$5,000,000 to OGML.

Furthermore, by a separate agreement, the Company has agreed to pay a finder's fee of up to 300,000 common shares in stages over the term of the Agreement, as follows:

- (1) 85,745 common shares in the first year of the Agreement (issued);
- (2) 41,277 common shares in the second year of the Agreement (issued);
- (3) 21,277 common shares in the third year of the Agreement; and
- (4) 151,702 when the Government of Guyana grants a mining license for the property.

The Company pledged a US\$100,000 reclamation site deposit to the Guyana Geology and Mines Commission for exploration permits on the Eagle Mountain property. The deposit is secured by a non-interest-bearing bond and is included in the consolidated statements of financial position.

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### **9. MINERAL PROPERTIES (Continued)**

#### **Mowasi Mineral Interest**

On October 7, 2011, the Company entered into a definitive option agreement with Mowasi Gold Corp. ("Mowasi") whereby the Company can earn a 95% interest in Mowasi's exclusive interest in prospecting and mining permits (the "Mowasi property") by paying an aggregate US\$1,400,000, issuing 500,000 common shares and incurring US\$1,000,000 exploration expenditures. The agreement is subject to regulatory approval. The concessions are adjacent to the Company's Eagle Mountain property in Guyana.

Under the terms of the agreement, the Company can earn a 49% undivided interest in the Mowasi property as follows:

- Pay Mowasi US\$100,000 (paid);
- Issue to Mowasi 50,000 common shares of the Company (issued);
- Expend exploration expenditures of no less than US\$1,000,000 in the first 18 months; and
- Pay Mowasi US\$300,000 14 days after the above 18-month term has been completed.

The Company can earn a further 46% undivided interest in the Mowasi property within 90 days after making exploration expenditures as follows:

- Pay Mowasi US\$1,000,000; and
- Issue to Mowasi 400,000 common shares of the Company.

Mowasi's remaining 5% interest in the Mowasi property will be carried until such time as the Company completes a feasibility study. The Company will be the operator of the Mowasi property.

#### **Seneca Property**

Pursuant to an agreement dated June 21, 2004, the Company was granted an option to acquire a 100% undivided interest in mineral claims situated in the New Westminster Mining Division, British Columbia. As consideration for the property, the Company paid \$20,000. The claims are subject to a 2% net smelter return royalty ("NSR") of which 1% can be purchased by the Company for \$250,000 at any time before the property is put into commercial production. During the years ended August 31, 2004 and 2005, the Company staked additional mineral claims at a cost of \$38,958.

Pursuant to an agreement dated July 22, 2005, the Company was granted an option to acquire a 100% undivided interest in additional mineral claims situated in the New Westminster Mining Division, British Columbia. As consideration, the Company paid \$40,000 and incurred \$20,000 of exploration expenditures. The claims are subject to a 2% NSR, which can be purchased by the Company for \$1,250,000 at any time.

During the years ended August 31, 2009 and 2012, the Company wrote-down the carrying value of the Seneca property as it has no future exploration programs planned on this property.

#### **Combarbala Property**

Pursuant to an agreement dated July 14, 2006 and subsequently amended August 31, 2009, the Company entered into a Royalty Agreement with BHP Billiton whereby the Company acquired a 100% interest in 33 mineral claims located in Region IV of Chile by agreeing to pay BHP Billiton a 2% NSR.

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### **9. MINERAL PROPERTIES (Continued)**

#### **Combarbala Property (continued)**

During the year ended August 31, 2010, the Company wrote-down the carrying value of the Combarbala property to a net book value of \$1 as it has no future exploration programs planned on the property. Costs incurred in the current period to maintain the property were written off. During the year ended August 31, 2012, the Company wrote-off all the costs incurred in this property.

#### **Tucumã Property**

On May 25, 2010, the Company agreed to acquire all of the issued and outstanding shares of Stronghold Brazil. As consideration, the Company issued 300,000 common shares and 150,000 non-transferable share purchase warrants to the former shareholders of the acquired company. Each warrant entitles the warrant holder to acquire an additional common share in the capital of the Company at a price of \$3.75 for a period of two years from the date of issue. On commencement of commercial production for primary ore (excluding alluvial minerals) from the Tucumã property, the Company will pay a sum of US\$3,000,000 and a 1% NSR to the former shareholders of the acquired company.

The aggregate purchase price of \$941,753 consisted of 300,000 common shares valued at \$540,000, 150,000 share purchase warrants valued at \$124,725 and \$41,590 of transaction costs. The value of the common shares issued was based on the market price of the Company's common shares on the share issuance date. The value of the share purchase warrants was estimated using the Black-Scholes option pricing model. The acquisition has been accounted for as a purchase of an asset, as Stronghold Brazil did not meet the definition of a business and the excess purchase price over the net asset acquired was allocated to mineral properties.

The Tucumã Project is a gold and copper/gold exploration project located in the city of Tucumã, state of Pará, Brazil. Five of the exploration licenses expire in April 2013 and one expire in April 2015.

The Company has recognized an impairment in the carrying value of the Tucumã property pursuant to its transaction with Kensington (note 10) and subsequent potential sale of its investment in the shares of Kensington.

#### **Title to mineral property interests**

Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

#### **Realization of assets**

The investment in and expenditures on mineral properties comprise a significant portion of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

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### 9. MINERAL PROPERTIES (Continued)

#### Environmental

The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation. The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions. If the restrictions adversely affect the scope of exploration and development on the mineral properties

### 10. TRANSACTION WITH KENSINGTON COURT VENTURES INC. ("KENSINGTON")

Effective April 30, 2012, the Company completed the sale of Stronghold Brazil to Kensington, a capital pool company listed on the TSX Venture Exchange (the "Exchange") in exchange for \$25,000 cash, the issuance to the Company of 16,300,000 common shares of Kensington (the "shares"), plus the grant to the Company of a 2% NSR royalty on production from the Tucumã property (the "Transaction"). Kensington has the right to purchase the NSR from the Company for \$1,500,000, which right is exercisable by Kensington at any time. The shares are considered as "value securities" in accordance with the policies of the Exchange and deposited in escrow with 10% of the shares released immediately and 15% releasable every six months for the balance of the 36-month escrow term.

As a result of the Transaction, the Company acquired a controlling interest of 58% of Kensington's issued and outstanding shares and consolidates the results of Kensington from April 30, 2012. The Company has recorded the Transaction using estimated fair values and accordingly has recognized an impairment of its interest in the Tucumã property in the amount of \$2,620,503.

The fair value of Kensington's net assets at the date of acquisition were as follows:

|  |    |                  |
|--|----|------------------|
| Cash                                     | \$ | 571,665          |
| Prepaid expenses                         |    | 116,421          |
| HST receivable                           |    | 37,730           |
| Accounts payable and accrued liabilities |    | <u>(172,012)</u> |
| Net assets                               | \$ | <u>553,804</u>   |

Pursuant to an agreement dated October 2, 2012 and subsequently amended on December 12, 2012, the Company has agreed to sell 14,670,000 common shares of Kensington to a private company controlled by a director subject to regulatory approval. As a result of this transaction, the Company's interest in Kensington will be reduced from 58.1% to 5.3%.

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### 10. TRANSACTION WITH KENSINGTON COURT VENTURES INC. (“KENSINGTON”) (Continued)

The carrying value of the non-controlling interest at November 30, 2012 is as follows:

|  |    |                  |
|--|----|------------------|
| Proportionate share of identifiable net assets<br>of Kensington on acquisition | \$ | 553,804          |
| Share of post-acquisition loss for period                                      |    | (737,660)        |
| Share of Kensington share-based payment  |    | 75,829           |
| Share of cumulative translation adjustment                                     |    | <u>6,665</u>     |
| Balance at August 31, 2012   |    | (101,362)        |
| Share of post-acquisition loss for period                                      |    | (61,388)         |
| Share of cumulative translation adjustment                                     |    | <u>5,358</u>     |
| Balance at November 30, 2012   | \$ | <u>(157,392)</u> |

### 11. CAPITAL STOCK

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued and fully paid

During the three months ended November 30, 2012:

On September 10, 2012, the Company completed the first tranche of financing for total gross proceeds of \$322,750 by the issuance of 2,390,740 units at a price of \$0.135 per unit. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.18 until September 10, 2017. The Company paid a finder's fee of \$25,820 to Weiser Capital Limited.

On October 15, 2012, the Company completed the second and final tranche financing in the amount of \$1,702,250 by the issuance of 12,609,260 units at a price of \$0.135 per unit. Each unit consists of one common share and one share purchase warrant. Each warrant entitles the holder to purchase one additional common share at a price of \$0.18 until October 15, 2017. The Company paid a finder's fee of \$136,180 to Weiser Capital Limited.

On November 27, 2012, the Company closed a non-brokered private placement for total gross proceeds of \$541,500 by the issuance of 3,800,000 units at a price of \$0.1425 per unit. Each unit consists of one common share and one transferable share purchase warrant. Each warrant entitles the holder to purchase one common share at a price of \$0.19 for a period of five years. No finder's fees were paid.

During the year ended August 31, 2012:

Effective July 26, 2012, the Company consolidated its common shares on a one-for-five basis. All figures as to the numbers of common shares, stock options, warrants as well as loss per share in these consolidated financial statements have been retroactively restated to reflect the consolidation.

**EAGLE MOUNTAIN GOLD CORP.****(Formerly Stronghold Metals Inc.)****Notes to Condensed Interim Consolidated Financial Statements (Unaudited)****For the Three Months Ended November 30, 2012 and 2011****(Expressed in Canadian dollars)**

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**11. CAPITAL STOCK (Continued)****(b) Issued and fully paid (continued)**

In July 2012, the Company issued 280,000 common shares to debt holders at a fair value of \$53,200 based on the market price of the shares on the date of issuance.

In October 2011 and March 2012, the Company issued 1,900,000 common shares at a fair value of \$2,270,941 based on the market price of the shares on the date of issuance related to the amended agreements for the Eagle Mountain property. The Company also issued 127,022 common shares at the fair value of \$120,670 as a finder's fee in connection with the Eagle Mountain property.

On October 21, 2011, the Company issued 50,000 common shares at the fair value of \$68,750 pursuant to acquisition of the Mowasi property.

**(c) Stock options**

The Company adopted a stock option plan (the "Plan") whereby the maximum number of options to acquire common shares of the Company that may be granted under the Plan will be 2,202,752. The term of those options to acquire common shares can be no longer than five years.

The Company has granted share purchase options to directors, officers, employees and consultants of the Company to purchase common shares of the Company. These options are granted with an exercise price equal to the market price of the Company's stock at the date of grant.

Summary of the stock options activity is as follows:

|                            | Number of<br>Options | Weighted<br>Average<br>Exercise Price |
|----------------------------|----------------------|---------------------------------------|
| Balance, August 31, 2011   | 1,042,000            | \$ 1.89                               |
| Granted                    | 290,000              | \$ 1.93                               |
| Cancelled/expired          | (412,000)            | \$ 1.95                               |
| Balance, August 31, 2012   | 920,000              | \$ 1.87                               |
| Granted                    | 300,000              | \$ 0.25                               |
| Balance, November 30, 2012 | 1,220,000            | \$ 1.47                               |

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## (c) Stock options (continued)

Stock options outstanding at November 30, 2012 were as follows:

| Expiry Date                                 | Number of<br>Options | Exercise<br>Price | Exercisable |
|---|----------------------|-------------------|-------------|
| January 2, 2013                             | 180,000              | 2.00              | 180,000     |
| July 28, 2014                               | 160,000              | 1.60              | 160,000     |
| April 7, 2014                               | 60,000               | 2.00              | 60,000      |
| November 24, 2014                           | 100,000              | 1.48              | 100,000     |
| April 6, 2015                               | 200,000              | 2.00              | 200,000     |
| October 14, 2016                            | 220,000              | 2.00              | 220,000     |
| September 20, 2012                          | 300,000              | 0.25              | 75,000      |
|   | 1,220,000            |                   | 995,000     |
| Weighted average remaining contractual life | 2.73 years           |                   | 2.25 years  |

During the period ended November 30, 2012, the Company recognized \$31,961 (2011 - \$275,607) of share-based compensation in the consolidated statements of comprehensive loss for stock options that were granted and/or vested to directors, officers and consultants of the Company.

The fair value of the stock options granted during the periods ended November 30, 2012 and 2011 was estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

|   | 2012    | 2011    |
|---|---------|---------|
| Risk-free interest rate                               | 1.38%   | 1.62%   |
| Expected dividend yield                               | -       | -       |
| Expected stock price volatility                       | 141%    | 102%    |
| Expected life of options                              | 5       | 2.75    |
| Weighted average exercisable price of options granted | \$ 0.18 | \$ 1.95 |

The total calculated fair value of share-based compensation for the periods ended November 30, 2012 and 2011 would be allocated in the consolidated statements of comprehensive loss as follows:

|                               | 2012      | 2011       |
|-------------------------------|-----------|------------|
| Investor relations            | \$ 31,961 | \$ 21,971  |
| Management and administration | -         | 253,636    |
|                               | \$ 31,961 | \$ 275,607 |



**EAGLE MOUNTAIN GOLD CORP.**

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**11. CAPITAL STOCK (Continued)**

## (d) Warrants

Summary of the warrant activity is as follows:

|                            | Number of Warrants | Weighted Average Exercise Price |
|----------------------------|--------------------|---------------------------------|
| Balance, August 31, 2011   | 2,333,272          | \$ 3.10                         |
| Expired                    | (1,495,022)        | \$ 3.34                         |
| Balance, August 31, 2012   | 838,250            | \$ 2.75                         |
| Granted                    | 18,800,000         | \$ 0.18                         |
| Balance, November 30, 2012 | 19,638,250         | \$ 0.29                         |

The fair value of the warrants issued during the periods ended November 30, 2012 and 2011 were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

|                                 | 2012  | 2011  |
|---------------------------------|-------|-------|
| Risk-free interest rate         | 1.34% | 1.54% |
| Expected dividend yield         | 0%    | 0%    |
| Expected stock price volatility | 141%  | 91%   |
| Expected life of warrants       | 5     | 1.68  |

Warrants outstanding at November 30, 2012 were as follows:

| Expiry Date                | Number of Warrants | Exercise Price |
|----------------------------|--------------------|----------------|
| July 28, 2013              | 838,250            | \$ 2.75        |
| September 10, 2017         | 2,390,740          | 0.18           |
| October 15, 2017           | 12,609,260         | 0.18           |
| November 27, 2017          | 3,800,000          | 0.19           |
| Balance, November 30, 2012 | 19,638,250         | \$ 0.18        |

**12. RELATED PARTY TRANSACTIONS**

During the three months ended November 30, 2012 and 2011, the Company incurred the following related party transactions:

## (a) Key management personnel compensation

|                              | 2012       | 2011       |
|------------------------------|------------|------------|
| Short-term employee benefits | \$ 114,285 | \$ 106,521 |
| Share-based compensation     | -          | 151,374    |
|                              | \$ 114,285 | \$ 257,895 |

## EAGLE MOUNTAIN GOLD CORP.

(Formerly Stronghold Metals Inc.)

Notes to Condensed Interim Consolidated Financial Statements (Unaudited)

For the Three Months Ended November 30, 2012 and 2011

(Expressed in Canadian dollars)

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### 12. RELATED PARTY TRANSACTIONS (continued)

Key management personnel were not paid post-retirement benefits, termination benefits or other long-term benefits during the periods ended November 30, 2012 and 2011.

- (b) During the period ended November 30, 2012, \$2,500 (2011 - \$nil) was paid for secretarial services to a private company controlled by a director.
- (c) As of November 30, 2012, \$52,222 (August 31, 2012 - \$44,956) was due to a company controlled by an officer.
- (d) As of November 30, 2012, \$54,204 (August 31, 2012 - \$65,500) was due to directors and a company controlled by a director. The amounts due to and from related parties are non-interest-bearing, unsecured and are without fixed terms of repayment.
- (e) The Company has agreed to sell 14,670,000 common shares of Kensington to a private company controlled by a director subject to regulatory approval. (Note 10)

### 13. LOANS PAYABLE

During the year ended August 31, 2012, the Company obtained unsecured loans totaling \$920,000. Of the total loans, \$500,000 bear interest of 1% per month during the six months from the date the loans were advanced ("initial term") and 2% per month commencing on the expiry of the initial term, and expiring 3 months ("renewal term") thereafter. As additional compensation, the Company issued 280,000 common shares to certain of the lenders

During the three months ended November 30, 2012 the Company fully repaid the loans and accrued interest. The loans of \$15,500 obtained during the period from a director and a company controlled by him are unsecured, non-interest bearing and without any fixed terms of repayment.

### 14. COMMITMENTS

#### Rental property

On July 1, 2011, the Company entered into two lease agreements with future minimum lease payments relating to office premises due in each fiscal year as follows:

|      |            |
|------|------------|
| 2013 | \$ 110,565 |
| 2014 | 178,500    |
| 2015 | 184,716    |
| 2016 | 153,930    |
|      | <hr/>      |
|      | \$ 627,711 |

As a condition of the office premises lease agreements, the Company placed a deposit of \$108,992 as of November 30, 2012 (August 31, 2012 - \$118,062) to be applied against future rents.

**EAGLE MOUNTAIN GOLD CORP.****(Formerly Stronghold Metals Inc.)****Notes to Condensed Interim Consolidated Financial Statements (Unaudited)****For the Three Months Ended November 30, 2012 and 2011****(Expressed in Canadian dollars)****15. SEGMENTED DISCLOSURE**

The Company operates in one industry segment, the mineral resources industry, and in four geographical segments, Canada, Chile, Brazil and Guyana. All current exploration activities are conducted in the affected jurisdictions outside of Canada. The significant asset categories identifiable with these geographical areas are as follows:

|                    |    |        |    |   |    | November 30, 2012 |       |           |        |           |
|--------------------|----|--------|----|---|----|-------------------|-------|-----------|--------|-----------|
|                    |    |        |    |   |    | Canada            | Chile | Brazil    | Guyana | Total     |
| Mineral properties | \$ | -      | \$ | - | \$ | 111,817           | \$    | 8,415,254 | \$     | 8,527,071 |
| Other assets       |    | 37,298 |    | - |    | -                 |       | 54,186    |        | 91,484    |
|                    | \$ | 37,298 | \$ | - | \$ | 111,817           | \$    | 8,469,440 | \$     | 8,618,555 |

  

|                    |    |         |    |   |    | August 31, 2012 |       |           |        |           |
|--------------------|----|---------|----|---|----|-----------------|-------|-----------|--------|-----------|
|                    |    |         |    |   |    | Canada          | Chile | Brazil    | Guyana | Total     |
| Mineral properties | \$ | -       | \$ | - | \$ | 67,093          | \$    | 8,074,851 | \$     | 8,141,944 |
| Other assets       |    | 109,207 |    | - |    | -               |       | 96,617    |        | 205,824   |
|                    | \$ | 109,207 | \$ | - | \$ | 67,093          | \$    | 8,171,468 | \$     | 8,347,768 |

**16. SUBSEQUENT EVENT**

180,000 stock options at \$2.00 per share expired on January 2, 2013.