

WESTMELVILLE
METALS INC.

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

DECEMBER 31, 2012 and 2011

In Canadian Dollars



KPMG LLP
Chartered Accountants
PO Box 10426 777 Dunsmuir Street
Vancouver BC V7Y 1K3
Canada

Telephone (604) 691-3000
Fax (604) 691-3031
Internet www.kpmg.ca

INDEPENDENT AUDITORS' REPORT

To the Shareholders of West Melville Metals Inc.

We have audited the accompanying consolidated financial statements of West Melville Metals Inc., which comprise the consolidated statements of financial position as at December 31, 2012 and 2011, the consolidated statements of comprehensive loss, changes in equity and cash flows for the year ended December 31, 2012 and for the period from incorporation on May 3, 2011 to December 31, 2011, and notes, comprising a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

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

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the consolidated financial position of West Melville Metals Inc. as at December 31, 2012 and 2011, and its consolidated financial performance and its consolidated cash flows for the year ended December 31, 2012 and for the period from incorporation on May 3, 2011 to December 31, 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to note 1 to the consolidated financial statements which describes that West Melville Metals Inc. has a history of incurring losses with no operating revenue and will be required to raise additional capital in order to continue its exploration activities and complete the acquisition of its mineral property interests. These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty that may cast significant doubt about West Melville Metals Inc.'s ability to continue as a going concern.



Chartered Accountants

April 18, 2013

Vancouver, Canada

West Melville Metals Inc.
(An Exploration Stage Company)
Consolidated Statements of Financial Position
As at December 31

(Amounts are expressed in Canadian Dollars)

ASSETS	Notes	2012	2011
Current			
Cash and cash equivalents	\$	89,668	\$ 1,139,714
Other receivables		2,714	-
HST recoverable		183,957	41,168
Prepaid expenses		56,951	-
		333,290	1,180,882
Equipment	3	48,905	54,519
Exploration and Evaluation Assets	4	5,373,387	880,086
		5,422,292	934,605
		\$ 5,755,582	\$ 2,115,487
LIABILITIES			
Current			
Accounts payable and accrued liabilities	\$	76,038	\$ 271,602
Flow-through share premium liability	5	-	23,625
		76,038	295,227
SHAREHOLDERS' EQUITY			
Share Capital	5	9,028,720	2,270,641
Prepaid share reserve	5	-	90,000
Contributed surplus		1,482,864	-
Deficit		(4,832,040)	(540,381)
		5,679,544	1,820,260
		\$ 5,755,582	\$ 2,115,487

Nature of operations and going concern (Note 1)

Commitments (Note 4)

APPROVED ON APRIL 18, 2013 ON BEHALF OF THE BOARD:

"Rory Moore" _____, President, CEO and Director

"Bruce Counts" _____, Director

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

West Melville Metals Inc.
(An Exploration Stage Company)
Consolidated Statements of Comprehensive Loss
(Amounts are expressed in Canadian Dollars)

	<i>Notes</i>	For the year ended December 31, 2012	For the period from Incorporation (May 3, 2011) to December 31, 2011
Expenses			
Advertising and promotion		\$ 117,258	\$ 9,037
Consulting		121,901	74,500
Corporate listing and filing fees		59,890	-
Depreciation		13,658	4,030
Office and administration		72,182	8,690
Personnel		510,992	197,558
Project evaluation	4	2,249,765	216,021
Professional fees		281,884	12,537
Rent		43,195	12,833
Stock-based compensation	5	876,881	-
Transfer agent fees		10,867	-
Travel and conferences		91,029	4,118
Loss before the undernoted		(4,449,502)	(539,324)
Other Income (Expenses)			
Interest income		11,503	-
Interest expense		(644)	(1,057)
Amortization of flow-through premium liability	5	146,984	-
Net loss and comprehensive loss for the period		\$ (4,291,659)	\$ (540,381)
Basic and Diluted Loss per Share		\$ (0.16)	\$ (0.10)
Weighted Average Number of Shares Outstanding		27,549,133	5,267,558

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

West Melville Metals Inc.
(An Exploration Stage Company)
Consolidated Statement of Changes in Equity
(Amounts are expressed in Canadian Dollars)

	Share Capital		Prepaid share reserve	Contributed surplus	Deficit	Total shareholders' equity
	Number of shares	Amount				
Value on incorporation on May 3, 2011	-	\$ -	\$ -	\$ -	\$ -	\$ -
Shares issued						
Incorporator's shares	1	1	-	-	-	1
Incorporator's shares - cancelled	(1)	(1)	-	-	-	(1)
Private placements – non-flow -through	16,383,800	2,117,200	90,000	-	-	2,207,200
Private placements – flow -through	2,800,000	157,500	-	-	-	157,500
Share issuance costs	-	(4,059)	-	-	-	(4,059)
Loss for the period	-	-	-	-	(540,381)	(540,381)
Balance, December 31, 2011	19,183,800	\$2,270,641	\$90,000	\$ -	\$ (540,381)	\$ 1,820,260
Shares issued						
Private placements – non-flow -through	2,920,000	730,000	(90,000)	-	-	640,000
IPO - non-flow -through	8,333,150	4,166,575	-	-	-	4,166,575
IPO - flow -through	2,822,727	1,552,500	-	-	-	1,552,500
Shares/w arrants issued for property	2,571,174	1,141,395	-	391,550	-	1,532,945
Share issuance costs	-	(709,032)	-	214,433	-	(494,599)
Flow through premium transferred to flow through premium liability	-	(123,359)	-	-	-	(123,359)
Stock-based compensation	-	-	-	876,881	-	876,881
Loss for the year	-	-	-	-	(4,291,659)	(4,291,659)
Balance, December 31, 2012	35,830,851	\$9,028,720	\$ -	\$1,482,864	\$(4,832,040)	\$ 5,679,544

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

West Melville Metals Inc.
(An Exploration Stage Company)
Consolidated Statements of Cash Flows
(Amounts are expressed in Canadian Dollars)

	For the year ended December 31, 2012	For the period from Incorporation (May 3, 2011) to December 31, 2011
Cash Flows used in Operating Activities		
Net loss for the period	\$ (4,291,659) \$	(540,381)
Adjustments for:		
Depreciation	13,658	4,030
Non-cash personnel compensation	-	23,625
Stock-based compensation	876,881	-
Interest income	(11,503)	-
Interest expense	644	1,057
Amortization of flow-through premium liability	(146,984)	-
Changes in non-cash working capital components:		
Other receivables	(2,714)	-
HST recoverable	(142,789)	(41,168)
Prepaid expenses	(56,951)	-
Accounts payable and accrued liabilities	(182,156)	238,782
	(3,943,573)	(314,055)
Interest received	11,503	-
Interest paid	(644)	(1,057)
	(3,932,714)	(315,112)
Cash Flows used in Investing Activities		
Equipment	(8,044)	(58,549)
Exploration and evaluation expenditures	(2,973,764)	(847,266)
	(2,981,808)	(905,815)
Cash Flows from Financing Activity		
Issuance of share capital, net of issuance costs	5,864,476	2,270,641
Loan from director	-	400,000
Repayment of loan from director	-	(400,000)
Prepaid share reserve	-	90,000
	5,864,476	2,360,641
Net Decrease in Cash and Cash Equivalents	(1,050,046)	1,139,714
Cash and Cash Equivalents - Beginning of Period	1,139,714	-
Cash and Cash Equivalents - End of Period	\$ 89,668 \$	1,139,714

Supplemental Schedule of Non-Cash Investing Activities	December 31, 2012	December 31, 2011
Change in accounts payable related to exploration and evaluation assets	\$ (13,408)	\$ 32,820
Shares/warrants issued for exploration and evaluation assets	1,532,945	-

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

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and for the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

1. Nature of Operations and Going Concern

West Melville Metals Inc. ("West Melville" or the "Company") was incorporated on May 3, 2011, pursuant to the Business Corporations Act of British Columbia, Canada. The Company was initially incorporated as 0909493 B.C. Ltd. and changed its name to West Melville Iron Company Ltd. on May 26, 2011. On January 17, 2012 the Company changed its name to West Melville Metals Inc. The Company's head office is located at Suite 1020, 800 West Pender Street, Vancouver BC, Canada, V6C 2V6. The Company's common shares are publicly listed on the Toronto Stock Exchange's Venture Exchange (the "TSXV") under the symbol "WMM".

West Melville and its subsidiary companies are an exploration stage enterprise and are currently in the process of acquiring and exploring mineral interests in Nunavut, Canada and in Greenland with the objective of identifying economically recoverable reserves and bringing the properties to the extraction and processing stage.

The Company has not yet determined whether the properties being explored contain economically recoverable mineral reserves. The recoverability of the amounts capitalized as mineral properties is ultimately dependent upon the existence of economically recoverable ore reserves, securing and maintaining title and beneficial interest in the properties, obtaining necessary financing to continue to explore and develop the properties, and upon future profitable production or proceeds from disposition of the mineral properties. The amounts shown as mineral property assets represent costs incurred to date, and do not necessarily represent current or future fair values. Values realized from assets may be substantially different from carrying values as recorded in these financial statements.

These consolidated financial statements have been prepared on a basis which assumes that the Company will be able to continue its operation as a going concern for the foreseeable future and will be able to realize its assets and discharge its liabilities in the normal course of business. At December 31, 2012, the Company had not achieved profitable operations, had an accumulated deficit of \$4,832,040 since inception, and expects to incur further losses as it develops its business and explores its mineral property interests, all of which raises significant doubt about the Company's ability to continue as a going concern.

The ability of the Company to carry out its planned business objectives and continue as a going concern is dependent on its ability to raise adequate financing from lenders, shareholders and other investors and/or generate operating profitability and positive cash flow from its mineral property interests. As disclosed in note 4, the Company has commitments under its Fraser Bay option agreement and Greenland property acquisition agreement which will need to be financed by funds raised by the Company. These commitments include cumulative minimum exploration expenditures on the Fraser Bay property and a US\$1.4 million acquisition payment related to the Isortoq property in Greenland that are due in 2013. It is the Company's intent to either raise the funds required to make these payments or re-negotiate the terms of these agreements. There can be no assurances that the Company will continue to obtain the additional financial resources necessary and/or achieve profitability or positive cash flows from its future operations. If the Company is unable to obtain adequate additional financing, the Company would be required to curtail its planned operations, exploration and development activities which may impact the acquisition of its mineral property interests.

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

1. Nature of Operations and Going Concern - Continued

The consolidated financial statements do not include any adjustments relating to the recorded amounts and classification of assets and liabilities should the Company be unable to continue as a going concern.

2. Significant Accounting Policies

a) Basis of Presentation, Principles of Consolidation, and Statement of Compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee effective for the Company's reporting period ended December 31, 2012.

These consolidated financial statements include the accounts of the Company and its wholly owned subsidiaries: Isortoq Holdings and Thule Holdings. Results of operations of the subsidiaries are included in these consolidated financial statements from the date of their incorporation in the Cayman Islands on December 9, 2011. All intercompany balances and transactions have been eliminated upon consolidation.

The consolidated financial statements were authorized for issue by the Board of Directors on April 18, 2013.

b) Basis of Measurement

The consolidated financial statements have been prepared on the historical cost basis.

c) Foreign Currency Translation

These consolidated financial statements are presented in Canadian Dollars. The functional currency and presentation currency of the Company and its subsidiaries is the Canadian dollar. Foreign currency transactions are translated into the functional currency of the Company and its subsidiaries using the exchange rates prevailing at the dates of the transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated into the functional currency at the exchange rate in effect at the financial statement date. Exchange gains or losses arising on translations are recognized in profit and loss for the reporting period.

d) Use of Judgments and Estimates

The following are the critical judgments and estimates that the Company has made in the process of applying the Company's accounting policies and that have the most significant effect on the amounts recognized in the consolidated financial statements.

Critical Judgments

The preparation of our consolidated financial statements requires us to make judgments regarding the going concern of the Company as discussed in note 1.

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

2. Significant Accounting Policies - Continued

d) Use of Estimates and Judgments - Continued

Key Sources of Estimation Uncertainty

The preparation of the consolidated financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and the disclosure of assets and liabilities at the date of the consolidated financial statements and the reported amounts of expenses during the reporting periods. Actual results could differ from those estimates and such differences could be significant. Significant estimates made by management affecting our consolidated financial statements include:

Share-based compensation

We measure our share based compensation expense by reference to the fair value of the stock options at the date at which they are granted. Estimating fair value for granted stock options requires determining the most appropriate valuation model which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the option, volatility, dividend yield, and rate of forfeitures. The value of the share based compensation expense for the year ended December 31, 2012 along with the assumptions and model used for estimating fair value for share based compensation transactions are disclosed in note 5.

Deferred tax assets and liabilities

The measurement of the deferred tax provision is subject to uncertainty associated with the timing of future events and changes in legislation, tax rates and interpretations by tax authorities. The estimation of deferred taxes includes evaluating the recoverability of deferred tax assets based on an assessment of the Company's ability to utilize the underlying future tax deductions against future taxable income prior to expiry of those deductions. Management assesses whether it is probable that some or all of the deferred income tax assets will not be realized. The ultimate realization of deferred tax assets is dependent upon the generation of future taxable income, which in turn is dependent upon the successful discovery, extraction, development and commercialization of mineral reserves. To the extent that management's assessment of the Company's ability to utilize future tax deductions changes, the Company would be required to recognize more or fewer deferred tax assets, and future tax provisions or recoveries could be affected.

Useful life of equipment

Each significant component of an item of equipment is depreciated over its estimated useful life. Estimated useful lives are determined based on current facts and past experience, and take into consideration the anticipated physical life of the asset, and the potential for technological obsolescence.

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

2. Significant Accounting Policies - Continued

d) Use of Estimates and Judgments - Continued

Carrying value and recoverability of exploration and evaluation assets

The carrying amount of Company's exploration and evaluation assets do not necessarily represent present or future values, and the Company's exploration and evaluation assets have been accounted for under the assumption that the carrying amount will be recoverable. Recoverability is dependent on various factors, including the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and development and upon future profitable production or proceeds from the disposition of the mineral property interests themselves. Additionally, there are numerous geological, economic, environmental and regulatory factors and uncertainties that could impact management's assessment as to the overall viability of its mineral property interests or to the ability to generate future cash flows necessary to cover or exceed the carrying value of the Company's exploration and evaluation assets.

e) Financial instruments

i) *Non-derivative financial assets*

The Company initially recognizes loans and receivables and deposits on the date that they are originated. All other financial assets are recognized initially on the trade date at which the Company becomes a party to the contractual provisions of the financial instrument.

The Company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

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

Non-derivative financial assets are classified into one of the following categories:

Loans and receivables

The Company has designated its cash and cash equivalents, other receivables and HST recoverable as 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.

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

2. Significant Accounting Policies - Continued

e) Financial instruments - Continued

i) **Non-derivative financial assets** - Continued

Cash and cash equivalents comprise cash balances and call deposits with original maturities of three months or less. The Company holds cash and cash equivalents with a large Canadian bank that has a strong credit rating.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch, the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy or the financial asset contains one or more embedded derivatives. Upon initial recognition attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

The Company does not have any financial assets at fair value through profit and loss.

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 does not have any held-to-maturity financial assets.

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. They are measured at fair value and changes therein, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income and presented within equity in accumulated other comprehensive income. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

The Company does not have any available-for-sale financial assets.

ii) **Non-derivative financial liabilities**

The Company's non-derivative financial liabilities include its accounts payable and accrued liabilities, which are designated as other liabilities.

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

2. Significant Accounting Policies – Continued

e) Financial instruments - Continued

ii) **Non-derivative financial liabilities** - Continued

All financial liabilities are recognized initially at fair value plus any directly attributable transaction costs on the trade date at which the Company becomes a party to the contractual provisions of the instrument. Subsequent to initial recognition, the Company's financial liabilities are measured at amortized cost using the effective interest method.

The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

iii) **Share capital**

Common shares

Common shares are classified as equity. 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.

Flow through common shares

Canadian tax legislation permits a company to issue flow-through common shares whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company.

Upon issuance of flow-through common shares, the fair value of the common shares is recorded as an increase in share capital. Any difference (premium) between the amounts recognized in share capital and the amount paid by the investor is recognized as a flow-through share liability and is reversed into earnings at the time the flow-through expenditures have been incurred.

When flow-through expenditures have been incurred and it is the Company's intent to renounce such expenditures, the Company records the tax effect as a charge to profit or loss and an increase to deferred income tax liabilities. To the extent that the Company has deferred income tax assets that were not recognized in previous periods, a deferred income tax recovery is recorded as an offsetting recovery in profit or loss.

f) Equipment

i) **Recognition and measurement**

Items of property and equipment are measured at cost less accumulated depreciation and accumulated impairment losses. Cost includes expenditure that is directly attributable to the acquisition of the asset.

When parts of an item of property and equipment have different useful lives, they are accounted for as separate items (major components) of property and equipment.

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

2. Significant Accounting Policies - Continued

f) Equipment - Continued

i) Recognition and measurement - Continued

Gains and losses on disposal of an item of property and equipment are determined by comparing the proceeds from disposal with the carrying amount of property and equipment, and are recognized net within other income in profit or loss.

ii) Subsequent costs

The cost of replacing an item of property and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the item will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced item is derecognized. The costs of the day-to-day servicing of the property and equipment are expensed.

iii) Depreciation

Depreciation is calculated over the cost of an asset less its residual value. Depreciation is provided on a declining balance method at rates designed to depreciate the cost of the equipment over the estimated useful lives. The annual amortization rates are as follows:

Computer equipment	30%
Office furniture and equipment	20%

Depreciation of leasehold improvements is calculated straight-line over the term of the lease.

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

g) Exploration and evaluation assets

Mineral property acquisition costs and related exploration costs, including option payments, are capitalized on an individual area of interest basis until the properties are brought into production, at which time they will be amortized on a unit-of-production basis, or until the properties are abandoned, sold or management determines that the mineral property is not economically viable, at which time the unrecoverable deferred costs are written off. Option payments arising on the acquisition of mineral property interests exercisable at the discretion of the Company are recognized as paid or payable.

Mineral property acquisition costs include cash consideration and the estimated fair market value of common shares or warrants on the date of issue as provided under the agreed terms of acquisition for the mineral property interest.

Capitalized exploration and evaluation costs are those directly attributable costs related to the search for, and evaluation of, mineral resources, that are incurred after the Company has obtained the legal rights to explore a specific area and before the technical feasibility and commercial viability of a mineral reserve are demonstrable. Any costs incurred prior

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

2. Significant Accounting Policies - *Continued*

g) Exploration and evaluation assets - *Continued*

to obtaining the right to explore a mineral property are expensed as incurred as project evaluation expense in the statement of comprehensive loss.

Management reviews the carrying value of capitalized exploration and evaluation assets each reporting period for indications of impairment. Exploration and evaluation assets are tested for impairment whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where information is available, and conditions suggest impairment, the fair value of the mineral property is determined using net cash flows for the mineral property taking into account proven and probable reserves and resources, estimated future prices and operating, capital and reclamation costs. In the case of undeveloped projects, there may be only inferred or indicated resources to form a basis for the impairment review. In such cases, the impairment review is based on the exploration and evaluation results to-date and a status report regarding the Company's intentions for development of the mineral property.

Recovery of the resulting carrying value of exploration and evaluation assets depends on the successful development or sale of the undeveloped project. If a project does not prove viable, all non-recoverable costs associated with the project are written off.

Once an economically viable reserve has been determined for a property and the decision to proceed with development has been approved, acquisition, exploration and evaluation assets attributable to that area are first tested for impairment and then reclassified to construction in progress within property and equipment.

The amount presented, if any, for exploration and evaluation assets represents costs incurred to date and does not necessarily reflect present or future values.

h) Impairment

i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the asset's original effective interest rate. Losses are recognized in profit or loss and reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

2. Significant Accounting Policies – Continued

h) Impairment – Continued

ii) **Non-financial assets**

At each reporting date the carrying amounts of the Company's long-lived assets, which are comprised of equipment and capitalized exploration and evaluation costs associated with mineral properties, are reviewed to determine whether there is any indication that

those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use, which is the present value of future cash flows expected to be derived from the asset or its related cash generating unit. For purposes of impairment testing, assets are grouped at the lowest levels that generate cash inflows from continuing use that are largely independent of the cash inflows of other assets or groups of assets (the "cash-generating unit"). The Company's cash generating units relate to the properties being explored in Nunavut, Canada and Greenland.

If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the associated assets are reduced to their recoverable amount and the impairment loss is recognized in the profit or loss for the period.

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 charge is reversed through profit or loss only to the extent that the asset's carrying amount does not exceed the carrying amount that would have been determined, net of any applicable depreciation, if no impairment loss had been recognized.

i) **Stock-based compensation**

The grant date fair value of share-based payment awards granted to employees is recognized as an employee expense, with a corresponding increase in equity, over the period that the employees unconditionally become entitled to the awards. The amount recognized as an expense is adjusted to reflect the number of awards for which the related service and non-market vesting conditions are expected to be met, such that the amount ultimately recognized as an expense is based on the number of awards that do meet the related service and non-market performance conditions at the vesting date.

Share-based payment arrangements in which the Company receives property or services as consideration for its own equity instruments are accounted for as equity settled share-based payment transactions. If the fair value of the property or service received cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the equity instruments granted at the date the Company receives the property or service.

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

2. Significant Accounting Policies - Continued

j) Restoration, rehabilitation and environmental costs

An obligation to incur rehabilitation and site restoration costs arises when an environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. The Company is required to record as a liability the estimated present value of future cash flows associated with the statutory, contractual, constructive or legal obligations related to site restoration and rehabilitation when the liability is incurred, with a corresponding increase to the carrying value of the related assets.

The Company has no material restoration, rehabilitation or environmental liabilities as the disturbance to date is minimal.

k) Income Taxes

Income tax expense comprises current and deferred tax. Current tax is the expected tax payable or receivable on the taxable income or loss for the year using tax rates enacted or substantively enacted at the reporting date. As the Company is in a loss position there is no current tax payable.

Deferred income 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 measured at the tax rates that are expected to be applied to temporary differences when they reverse, based on the tax laws that have been enacted or substantively enacted by the reporting date. Deferred income tax assets and liabilities are offset if there is a legally enforceable right to offset current tax liabilities and assets, and they relate to income taxes levied by the same tax authority on the same taxable entity.

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.

l) Loss per Common Share

The Company presents basic and diluted loss per share data for its common shares. Basic loss per common share is calculated by dividing the profit or loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per common share is calculated by adjusting the weighted average number of common shares outstanding to assume conversion of all potentially dilutive share equivalents, such as stock options and warrants and assumes the receipt of proceeds upon exercise of the dilutive securities to determine the number of shares assumed to be purchased at the average market price during the period.

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

2. Significant Accounting Policies – Continued

m) Segment Reporting

The Company operates in a single reportable operating segment – the acquisition, exploration and development of mineral properties. The Company's projects are located in Canada and Greenland as identified in Note 9. All other assets are held within Canada.

n) Future Changes in Accounting Standards

A number of new standards, and amendments to standards and interpretations, are not yet effective for the year ended December 31, 2012, and have not been applied in preparing these consolidated financial statements. None of these is expected to have a significant effect on the consolidated financial statements of the Company, except for IFRS 9 Financial Instruments and IFRS 13 Fair Value Measurements, which become mandatory for the Company's 2015 and 2013 consolidated financial statements respectively. The Company is in the process of evaluating these new standards and the impact has not yet been determined.

Financial Instruments IFRS 9, "Financial Instruments" ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

IFRS 13 Fair Value Measurement (effective for annual periods beginning on or after January 1, 2013) provides new guidance on fair value measurement and disclosure requirements.

3. Equipment

	Furniture & Equipment	Computer Hardware	Field Equipment	Leasehold Improvements	Total
Cost at December 31, 2011	\$ 28,375	\$ 3,149	\$ -	\$ 27,025	\$ 58,549
Additions	3,939	-	1,874	2,231	8,044
Cost at December 31, 2012	32,314	3,149	1,874	29,256	66,593
Accumulated depreciation at December 31, 2011	2,005	551	-	1,474	4,030
Depreciation	6,062	779	312	6,505	13,658
Accumulated depreciation at December 31, 2012	8,067	1,330	312	7,979	17,688
Net book value at December 31, 2012	\$ 24,247	\$ 1,819	\$ 1,562	\$ 21,277	\$ 48,905

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

3. Equipment – Continued

	Furniture & Equipment	Computer Hardware	Field Equipment	Leasehold Improvements	Total
Cost at May 3, 2011	\$ -	\$ -	\$ -	\$ -	\$ -
Additions	28,375	3,149	-	27,025	58,549
Cost at December 31, 2011	28,375	3,149	-	27,025	58,549
Accumulated depreciation at May 3, 2011	-	-	-	-	-
Depreciation	2,005	551	-	1,474	4,030
Accumulated depreciation at December 31, 2011	2,005	551	-	1,474	4,030
Net book value at December 31, 2011	\$ 26,370	\$ 2,598	\$ -	\$ 25,551	\$ 54,519

4. Exploration and Evaluation Assets

	December 31, 2012			December 31, 2011		
	Acquisition Costs	Deferred Exploration	Total	Acquisition Costs	Deferred Exploration	Total
Exploration and Evaluation Assets						
Fraser Bay						
Balance, beginning of the period	\$ 200	\$ 460,686	\$ 460,886	\$ -	\$ -	\$ -
Acquisition costs	774,220	-	774,220	200	-	200
Air support and transportation	-	120,085	120,085	-	-	-
Camp costs	-	556,618	556,618	-	54,216	54,216
Community relations	-	24,310	24,310	-	-	-
Consulting	-	223,300	223,300	-	51,874	51,874
Geophysics	-	462	462	-	141,013	141,013
Travel and accommodations	-	119,214	119,214	-	24,260	24,260
Trenching	-	643,070	643,070	-	189,323	189,323
Balance, end of period	774,420	2,147,745	2,922,165	200	460,686	460,886
Greenland Property						
Balance, beginning of the period	419,200	-	419,200	-	-	-
Acquisition costs	1,920,578	-	1,920,578	419,200	-	419,200
Analytical and sampling	-	88,134	88,134	-	-	-
Field work	-	23,310	23,310	-	-	-
Balance, end of period	2,339,778	111,444	2,451,222	419,200	-	419,200
Total	\$ 3,114,198	\$ 2,259,189	\$ 5,373,387	\$ 419,400	\$ 460,686	\$ 880,086

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

4. Exploration and Evaluation Assets – Continued

Fraser Bay Option Agreement

The Fraser Bay Iron Property (“Fraser Bay Project”) covers 3,228 acres and consists of a single mineral lease along the central western coast of the Melville Peninsula, located in Nunavut Territory, Canada. The mineral lease is wholly-owned by Roche Bay PLC (“Roche Bay”).

Pursuant to the Fraser Bay Option Agreement as amended by the parties to the agreement, Roche Bay granted the Company an option to acquire up to an undivided 70% right, title and interest in the Fraser Bay Project, as follows:

- A. In order to acquire an initial undivided 30% interest in and to the Fraser Bay Project (the “First Option”), the Company must:
 - i) Issue to Roche Bay common shares of the Company, with the number of common shares not to exceed an aggregate of 7 million common shares, as follows:
 - a. On the date that is the later of the Initial Public Offering (“IPO”) and October 31, 2012, such number of common shares as is equal to 5%, less 150,000 shares, of the issued and outstanding common shares of the Company on the date of issuance, with a hold period of 150 days from October 31, 2012 (completed by the issuance of 1,563,374 common shares on October 31, 2012); and
 - b. On or before September 30, 2013, such number of common shares as is equal to 5% of the issued and outstanding common shares of the Company on the date of issuance.
 - ii) Incur an aggregate of \$2,500,000 in exploration expenditures no later than September 30, 2013 as follows:
 - a. \$500,000 in exploration expenditures on or before September 30, 2012 (completed); and
 - b. The balance in exploration expenditures on or before September 30, 2013, which exploration expenditures shall include a minimum of 1,200 metres of drilling.
 - iii) Pay to Roche Bay \$75,000 upon signing of the fourth amending agreement to the Fraser Bay Option Agreement (completed).
 - iv) Complete its IPO and have its common shares listed on a recognized stock exchange by December 31, 2012 (completed).

All work on the Fraser Bay Project necessary to exercise the First Option must be conducted by Apex Geoscience Ltd. Upon the Company completing the above requirements and earning its initial 30% interest in the Fraser Bay Project, the parties have agreed to negotiate and enter into a joint venture agreement governing the operations on the Fraser Bay Project.

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

4. Exploration and Evaluation Assets – Continued

Fraser Bay Option Agreement - Continued

After exercise of the First Option, the Company, or the operators of the joint venture formed between the parties, shall pay to Roche Bay in perpetuity, on a pro rata basis against its share of production, an overriding royalty on the sale by any party of all ores, minerals, metals or other products extracted, mined, utilized, removed or produced from the Fraser Bay Project (collectively the “Mineral Products”), as follows:

- 0.5% on the gross proceeds from the sale of any Mineral Products; and
 - 3.9% on the gross proceeds from the sale of any Mineral Products that are sold for at least US\$100 per kilogram refined.
- B. Upon due exercise of the First Option, the Company will have the option to acquire an additional undivided 30% interest in and to the Fraser Bay Project (the “Second Option”) by completing the following no later than December 31, 2015:
- i) Incurring an additional \$8,000,000 in exploration expenditures, or, at the Company's election, completing a minimum of 10,000 metres of drilling on the Fraser Bay Project, in each case with a minimum of \$500,000 in exploration expenditures being expended in each calendar year; and
 - ii) Completing a preliminary economic assessment, which includes a resource statement on the Fraser Bay Project, in a form compliant with National Instrument (“NI”) 43-101.

Failure by the Company to complete the requirements set out above to earn the additional 30% interest within the required time periods will result in termination of the Fraser Bay Option Agreement, with the Company retaining the initial 30% interest earned.

- C. Upon exercise of the Second Option set out above, the Company will have a third option to acquire an additional undivided 10% interest in and to the Fraser Bay Project by completing a feasibility study (as defined in NI 43-101) on the Fraser Bay Project.

Pursuant to the Fraser Bay Option Agreement as amended by the parties to the agreement, the Company shall act as the operator with respect to all exploration work to be carried out on the Fraser Bay Project, and has the exclusive right to enter onto the Fraser Bay Project and to conduct exploration work thereon. The Company is required to keep the Fraser Bay Project in good standing, and to pay all rentals, taxes or other governmental charges which fall due during the period of the Fraser Bay Option Agreement. The Company must do all work on the Fraser Bay Project in compliance with all applicable laws and regulations and must permit Roche Bay access to the Fraser Bay Project at all reasonable times. The Company has agreed to provide Roche Bay with an annual report within 60 days after the end of each calendar year detailing exploration and/or development work conducted on the Fraser Bay Project. The Company has also agreed to indemnify Roche Bay against any losses, liabilities, claims, demands, damages, expenses, injuries or death arising out of the Company's work or operations on the Fraser Bay Project.

Once the Company has earned a 60% interest in the Fraser Bay Project, if the Company receives an arm's length third party offer to acquire the Fraser Bay Project for not less than

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

4. Exploration and Evaluation Assets – Continued

Fraser Bay Option Agreement - Continued

\$100,000,000 (payable in cash or in shares of a publicly listed company), and such offer includes an offer to acquire Roche Bay's 40% interest on the same terms, then Roche Bay shall be required to sell its interest pursuant to the offer. If the Company receives such an offer after it has acquired an initial 30% interest but prior to acquiring a full 60% interest, the Company shall have the right to acquire the additional 30% interest from Roche Bay for the sum of \$8,000,000 less the amount of exploration expenditures actually incurred by the Company during the Second Option period. Thereafter the Company shall also be entitled to require Roche Bay to sell its remaining interest pursuant to the offer.

In the event that Roche Bay wishes to sell its interest in the Fraser Bay Project at any time to an arm's length party, the Company has a right of first refusal for a period of 30 days to acquire such interest.

The Fraser Bay Option Agreement also provides that any claims acquired by either party with an area lying within 5 kilometers from any part of the Fraser Bay Project shall form part of the Fraser Bay Project and will be subject to the Fraser Bay Option Agreement.

Pursuant to the Fraser Bay Option Agreement, if the Company undertakes an equity financing to fund the initial \$2,500,000 in exploration expenditure requirements under the Fraser Bay Option Agreement, Roche Bay has the right to purchase up to 20% of such equity financing.

The Fraser Bay Project may be subject to the following possible third party rights:

- i) A Royalty Agreement dated January 1, 1969 between Borealis Exploration Limited ("Borealis") and Catawba International, Inc. ("Catawba"), registered at the Mining Recorder's Office of the Territory of Nunavut on November 8, 1993 as G21363, pursuant to which Borealis or any of its successors will pay to Catawba a royalty (the "Borealis Royalty") equal to a 1/48 overriding royalty net of processing costs on any minerals, oil and gas. In addition, a Notice to Third Party dated August 27, 1997 between Mitlock Limited Partnership ("Mitlock") and Borealis, whereby Mitlock holds a royalty on the mining lease equating to US\$1,875,000 (the "Mitlock Royalty"), by virtue of an Agreement and Assignment of Agreement between Borealis and Boston Safe Deposit & Trust Company. The Mitlock Royalty was registered at the Mining Recorder's Office of the Territory of Nunavut on October 8 1997 as G21522. The Mitlock Royalty is payable should Borealis lease, sell or engage in any other form of disposition of the mining lease (a "Mining Lease Sale"), and including for greater certainty, all revenues received in connection with production on or from the mining lease. In the case of a Mining Lease Sale, the Mitlock Royalty would be paid out of 25% of the net proceeds earned by Borealis from the Mining Lease Sale.
- ii) A crown royalty equal to a 6% profit royalty, after 15% depreciation and all other expenses (the "Crown Royalty"); and
- iii) An additional royalty equal to 31.5% of the Crown Royalty in favour of Canada Southern Petroleum Corporation 1979 (the "CSPC Royalty") from 1979.

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

4. Exploration and Evaluation Assets – Continued

Fraser Bay Option Agreement - Continued

Neither the Crown Royalty nor the CSPC Royalty (collectively the "Possible Third Party Royalties") are registered against the Fraser Bay Project at the Mining Recorder Office of Aboriginal Affairs and Northern Development Canada. The Borealis Royalty, together with the Mitlock Royalty are registered against the Fraser Bay Project at the Mining Recorders Office, which may have an effect on the Fraser Bay Project. It is undetermined at this time as to whether the Possible Third Party Royalties, or any of them, will result in future royalty payments.

In addition to the private royalties described above, under the Northwest Territories and Nunavut Mining Regulations ("NTNMR"), an annual royalty of up to 14% of the net value of mine production is payable to the federal government for any mine production on mining leases or claims held prior to the Nunavut Land Claims Agreement. Under NTNMR, the royalty is based on defined profits multiplied by a royalty rate which is the lesser of 13% of the net value of mine output during a fiscal year and an escalating rate from 0% to 14% on incremental levels of the net value of the mine output. The value of output is generally the profits from both mining and processing operations, with the deduction of a processing allowance, and certain deductions for capital and development.

During the year ended December 31, 2012, the Company conducted a surface sampling campaign.

Greenland Agreement

The Isortoq Property is located in south Greenland, approximately 100 kilometres west of the Narsarsuaq International Airport, and consists of four licences issued by the Greenland Bureau of Minerals and Petroleum. The Greenland Property contains a mineralized geological feature that is being evaluated for its potential to host an economic deposit of iron, titanium and vanadium.

Pursuant to the Greenland Agreement, Hunter Minerals Pty Ltd. ("HMP"), an arm's length foreign entity, has agreed to sell to the Company, and the Company has agreed to purchase the Isortoq Property. The Company paid a non-refundable deposit of US\$400,000 to HMP on signing of the Greenland Agreement in November 2011. It was a condition precedent to the acquisition of the Isortoq Property that the Company complete its IPO and have its common shares trading on the TSX Venture Exchange (the "Exchange") prior to July 27, 2012, as agreed by the Company and HMP in an amendment to the Greenland Agreement dated July 6, 2012.

In order to acquire the Isortoq Property, the Company must:

- A. on the 10th business day after the date on which the Company commences trading on a public exchange:
 - i) pay to HMP the amount equal to 15% of the gross proceeds raised by the IPO, being \$832,875;

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

4. Exploration and Evaluation Assets – Continued

Greenland Agreement – Continued

- ii) issue to HMP that number of units (the "Units") as is equal to US\$500,000 divided by the offering price per common share of the IPO (the "Offering Price") which was \$0.50 per common share. The Company issued 1,007,800 Units, with each Unit consisting of one common share and one warrant exercisable to acquire one additional common share for a period of five years at the Offering Price; and
- iii) execute and deliver the Royalty Agreement and the Restriction Agreement (both as defined below).

B. on December 31, 2012, pay to HMP US\$250,000.

The Company completed these requirements within the stipulated time.

C. on July 31, 2013, or such earlier day as the parties may agree:

- i) pay to HMP that amount that is equal to US\$2,500,000 less the amounts paid pursuant to A(i) and B above being US\$1,423,500;
- ii) issue to HMP that number of share purchase warrants (the "VWAP Warrants") as equal to US\$500,000 divided by the price which is equal to 120% of the volume-weighted average trading price of the common shares calculated over the ten trading days up to but excluding July 31, 2013 (the "VWAP Price"). The VWAP Warrants will be exercisable for a period of five years and will be exercisable at a price equal to the VWAP Price.

If the Company does not satisfy these requirements on July 31, 2013, HMP may terminate the Greenland Agreement.

Upon the Company satisfying its obligations in paragraph A above, HMP executed each of the Royalty Agreement and the Restriction Agreement (both as defined below), and granted an exclusive interim licence (the "Interim Licence") to the Company to use the Isortoq Property until such time as legal title is transferred to the Company or the Greenland Agreement is terminated.

During the term of the Interim Licence, no licence fee or other compensation (other than pursuant to the Royalty Agreement) is required to be paid by the Company to HMP, the Company may register an interest over the Isortoq Property, the Company must comply with the terms of the Licences and applicable laws governing the Isortoq Property, and the Company must allow HMP and its representatives access to the Isortoq Property for the purpose of ensuring records comply with the requirements of the Bureau of Minerals and Petroleum ("BMP"). The Company is responsible for all work commitments relating to the Licences from January 1, 2012 until the earlier of the last day of the calendar year in which the Greenland Agreement is terminated, or in which the BMP registers the transfer of the Licences. Upon receipt of the Interim Licence, the Company commenced capitalization of exploration and evaluation costs. Upon the Company satisfying its obligations in paragraph C above, HMP is required to give to the Company each document or other thing reasonably required by the Company to transfer legal and beneficial title to the Isortoq Property to the Company.

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

4. Exploration and Evaluation Assets – Continued

Greenland Agreement - Continued

The Company and HMP have executed a royalty agreement (the "Royalty Agreement") pursuant to which the Company has agreed to grant to HMP a 2.5% net smelter royalty (the "Royalty") on minerals and mineral-bearing substances (excluding iron ore, titanium and/or vanadium) produced from the Isortoq Property. The Company may, within 60 days after commencement of commercial production on the Isortoq Property, reduce the Royalty to 1.25% by delivering a notice to HMP that the Company intends to reduce the Royalty percentage and by paying US\$2,000,000 to HMP.

The Company and HMP have agreed that any securities issued to HMP by the Company pursuant to the Greenland Agreement, including the 1,007,800 Units issued in 2012 and the VWAP Warrants to be issued shall be subject to an escrow agreement (the "Restriction Agreement") pursuant to which the securities will be held in escrow and will not be released from escrow until the date which is two years from July 23, 2012 (subject to the discretion of the Board of Directors of the Company), at which time 70% of the securities will be released from escrow with the remaining securities released as to one-half on the date which is 30 months after the IPO date and the remaining securities on the date which is 36 months after the IPO date. In the event that the Board of Directors waives the two year escrow restriction period, the securities placed into escrow will be released as to 10% on the IPO date and 15% each six months thereafter. To date the Board of Directors has not waived the two year escrow restriction period.

In late April of this year, crews mobilized to the Isortoq Property. Camp infrastructure was established and expanded around the existing Isortoq Reindeer Station located on tidewater which is four kilometres from the historic work site. Core drilling at the Isortoq Property commenced May 1, 2012 and the program was completed in early June 2012.

Prior to receiving the Interim Licence in August 2012, all costs incurred with respect to exploration and evaluation work was expensed as incurred, resulting in a project evaluation expense during the year ended December 31, 2012 of \$2,249,765 (2011 - \$216,021). Upon receipt of the Interim Licence all exploration and evaluation work has been capitalized.

5. Share Capital

Authorized Share Capital

At December 31, 2012 the authorized share capital comprised an unlimited number of common shares without par value.

Issued Share Capital

Initial Public Offering

On July 23, 2012, the Company announced the completion of its IPO of 8,000,000 common shares at a price of \$0.50 per common share, and 2,822,727 flow-through common shares

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

5. Share Capital – Continued

Initial Public Offering - Continued

priced at \$0.55 per flow-through common share for total gross proceeds of \$5,552,500. The Company commenced trading on the TSX Venture Exchange at market open on July 23, 2012 (the "Listing Date"), under the ticker symbol "WMM".

Share issuance costs in respect of the IPO were \$701,511 which consisted of \$320,504 in cash, 333,150 common shares with a fair value of \$166,575 and 649,363 broker warrants with a fair value of \$214,432. Each broker warrant is exercisable at a price of \$0.50 per common share for a period of two years from July 23, 2012.

The flow-through share premium of \$141,136 (\$0.05 per common share) was recorded as a flow-through share premium liability, net of \$17,777 in associated share issue costs.

Other Share Issuances – 2012

During the year ended December 31, 2012, the Company closed a private placement that consisted of 2,920,000 non-flow-through common shares at \$0.25 per common share for gross proceeds of \$730,000. Share issuance costs totaled \$7,521.

On August 3, 2012, the Company issued 1,007,800 common shares with a fair value of \$453,510 and 1,007,800 common share purchase warrants with a fair value of \$391,550 as part of the acquisition of the Isortoq Project (note 4). The common share purchase warrants are exercisable at a price of \$0.50 per common share for a period of five years.

On October 31, 2012, the Company issued 1,563,374 common shares with a fair value of \$687,885 as part of the purchase price of the Fraser Bay Option Agreement.

Share Issuances – 2011

During the period from incorporation on May 3, 2011 to December 31, 2011 the Company raised net seed capital of \$2,270,641 by way of private placements. The private placements consisted of 16,383,800 non flow-through common shares at various prices between \$0.01 and \$0.25 per common share for total gross proceeds of \$2,117,200 and 2,800,000 flow-through common shares at various prices between \$0.01 and \$0.10 per flow-through common share for total gross proceeds of \$157,500. Share issuance costs totaled \$4,059.

Pursuant to the subscription agreements entered into between the purchasers and the Company, the purchasers agreed that all common shares would be subject to a voluntary two year hold period from the date of listing on the Exchange ("Listing Date"), subject to the discretion of the Board of Directors of the Company.

Escrowed Securities and Resale Restrictions

In addition to the voluntary hold period described above, under the applicable policies of the Canadian Securities Administrators and the Exchange, the common shares issued are subject to either escrow agreements or resale restrictions.

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

5. Share Capital – Continued

Escrowed Securities and Resale Restrictions - Continued

Pursuant to an escrow agreement dated February 22, 2012, the Company's directors and executive officers and certain other shareholders (collectively the "Principals") agreed to deposit in escrow the 10,353,800 common shares held by them prior to the IPO date. The escrow agreement provides that the escrowed common shares will be released from escrow as to 70% on the date which is two years from the Listing Date and the remaining securities in equal blocks of 15% at six month intervals thereafter. The Board of Directors of the Company has the discretion to alter or waive the initial two year escrow period, in which event 10% of the escrowed securities will be released on the IPO date, with 15% released each six months thereafter. In addition to the common shares deposited in escrow prior to the IPO, 1,007,800 Units issued subsequent to the IPO as part of the acquisition of the Isortoq property in Greenland are subject to the escrow terms. As of December 31, 2012, 11,361,600 common shares remained in escrow in accordance with the escrow agreement. To date the Board of Directors has not waived the two year escrow restriction period.

In addition to the hold period described above, 11,750,000 common shares held by non-Principals are subject to resale restrictions in accordance with the policies of the Exchange, as follows: 2,245,000 are subject to a three year restriction with 10% released on the Listing Date and 15% every six months thereafter; 750,000 are subject to a two year restriction with 20% released on the Listing Date and 20% each six months thereafter; and 8,755,000 common shares subject to a four month hold period pursuant to which 20% will be released on the Listing Date and 20% each month thereafter. As of December 31, 2012, 2,620,500 common shares remain subject to the resale restrictions.

Flow-through Premium Liability

Pursuant to the flow-through share agreements, the Company must renounce its qualifying flow-through share exploration expenditures to the flow-through shareholders, at which time the Company gives up its rights to the associated income tax benefits associated with the expenditures. The 2,800,000 flow-through common shares issued in 2011 were not issued at a premium to the value of non-flow-through common shares and the Company has considered the benefit associated with the flow-through common shares to be a non-cash compensation expense of the Company for services rendered. The fair value of the flow-through share liability and associated compensation expense was determined to be \$23,625. During 2012, the Company issued an additional 2,822,727 flow-through shares with a net premium liability of \$123,359.

The amount recorded to share capital when flow-through shares are issued is measured based on the current market price of common shares. The incremental proceeds, or "premium", are recorded as a liability. When qualifying expenditures are incurred and the intention is to renounce the tax benefits to the shareholders, the flow-through share premium is recognized in other income and the liability is reversed.

During the year ended December 31, 2012, the Company incurred and renounced qualifying expenditures in relation to the flow-through share proceeds, and recognized in other income \$146,984.

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

5. Share Capital – Continued

Prepaid Share Reserve

At December 31, 2011, the Company had received \$90,000 in relation to a private placement of non-flow-through common shares that closed on January 17, 2012. The prepayment was for 360,000 common shares at a price of \$0.25 per common share and the common shares were issued by the Company on January 17, 2012.

Warrants

Details of outstanding warrants are as follows:

	Number of Warrants	Weighted Average Exercise Price
Outstanding warrants, December 31, 2011	-	\$ -
Issued	1,657,163	0.50
Exercised	-	-
Outstanding warrants, December 31, 2012	1,657,163	\$0.50

At December 31, 2012, the Company had outstanding warrants enabling the holders to acquire common shares as follows:

Expiry Date	Weighted Average Exercise Price	Number of Warrants	Weighted Average Remaining Contractual Life in Years
July 19, 2014	\$0.50	649,363	1.56
August 3, 2017	\$0.50	1,007,800	4.59
Weighted average exercise price and remaining contractual life	\$0.50	1,657,163	3.40

The fair value of warrants issued during the year ended was estimated using the Black-Scholes Option Pricing Model with the following assumptions:

Estimated risk-free rate	1.04-1.30%
Expected volatility	134%
Estimated dividend yield	0.0%
Expected life of warrants	2-5 years

Stock Options

Under the Company's stock option plan, the board of directors may grant options for the purchase of up to 10% of the total number of issued and outstanding common shares of the Company. Options granted under the plan vest over time at the discretion of the board of directors and expire no later than ten years from the date of issuance. Exercise prices on

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

5. Share Capital – Continued

Stock Options - Continued

options granted under the plan cannot be lower than the market price of one common share on the last trading day immediately preceding the day on which the option is granted, less the maximum applicable discount permitted by TSX Venture Exchange and the minimum exercise price per common share must be at least \$0.10.

During the year ended December 31, 2012, the Company's Board approved the grant of options to acquire up to 4,100,000 common shares at an exercise price of \$0.50 for a period of ten years from the Listing Date. As the maximum offering under the Company's IPO was not sold, the number of stock options was reduced to 3,265,000 to comply with the stock option plan's limitation that the number of options outstanding cannot exceed 10% of the issued and outstanding common shares of the Company. The stock options vest at 25% one year from the grant date, and further 25% increments every three months thereafter. Stock-based compensation expense, as calculated using the Black-Scholes option pricing model, of \$876,881 was recorded in relation to options in the year ended December 31, 2012. The weighted average fair value of the options granted was \$0.45 per option.

The changes in stock options issued are as follows:

	Number	Weighted Average Exercise Price
Outstanding December 31, 2011	-	\$ -
Issued	3,265,000	-
Exercised	-	-
Expired /cancelled without exercise	-	-
Outstanding December 31, 2012	3,265,000	\$0.50

At December 31, 2012 the following stock options were outstanding:

Expiry Date	Weighted Average Exercise Price	Number of Options	Vested and Exercisable Number of Options	Weighted Average Remaining Life in Years
February 23, 2022	\$0.50	3,265,000	-	9.16
	\$0.50	3,265,000	-	9.16

The fair value of stock options for all options issued was estimated at the grant date based on the Black-Scholes option pricing model with the following weighted average assumptions:

December 31, 2012	
Risk-free interest rate	1.42%
Expected dividend yield	0%
Expected stock price volatility	137%
Expected forfeitures	0%
Average expected option life	5.5 years

For all valuation models, the risk-free rate of return is the yield on a zero-coupon Canadian Treasury Bill of a term consistent with the assumed option life. The expected volatility is

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

5. Share Capital – Continued

Stock Options - Continued

based on the Company's historical prices. The Company did not have a history of common stock prices at the grant date so the average volatility of five comparable companies was used for the options granted in 2012. The expected average option life and expected forfeitures are based on management's best estimate of the Company's options.

6. Financial Risk Management

Fair value of financial assets and liabilities

The fair value of the Company's cash and cash equivalents, other receivables, HST recoverable and accounts payable and accrued liabilities approximate their carrying value which is the amount recorded on the consolidated statement of financial position due to their short term to maturity.

Overview

The Company has exposure to credit risk, liquidity risk and market risk from its use of financial instruments.

This note presents information about the Company's exposure to each of the above risks, the Company's objectives, policies and processes for measuring and managing risk, and the Company's management of capital.

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework.

Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The Company's credit risk is primarily attributable to its cash and cash equivalents, other receivables and HST recoverable. Management believes that the credit risk concentration with respect to financial instruments included in cash and cash equivalents, other receivables and HST recoverable is remote as they relate to deposits and interest from a major financial institution and HST recoverable from the Government of Canada. The maximum credit risk as at December, 31, 2012 was \$276,339 (December 31, 2011 - \$1,180,882).

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations and commitments as they become due. The Company ensures that there is sufficient capital in order to meet short term business requirements, after taking into account cash flows from operations and the Company's holdings of cash and cash equivalents. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. Management believes that the Company has sufficient funds to meet its obligations as they become due or will be able to obtain financing as required to meet its obligations and commitments (see Note 1).

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

6. Financial Risk Management - Continued

Market risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, and commodity and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. The Company does not currently have any significant interest or equity price risk as it has no interest bearing debt nor does it hold any investments in equities of another entity.

Foreign currency risk

In the normal course of business, the Company enters into transactions for the purchase of supplies and services and acquisition of mineral properties, denominated in a currency other than the functional currency of the Company. As a result, the Company is subject to foreign exchange risk from fluctuations in foreign exchange rates. The Company has not entered into any derivative or other financial instruments to mitigate this foreign exchange risk. The Company does not have any significant currency risks at December 31, 2012, however future payments associated with the acquisition of the Isortoq Property will be denominated in U.S. dollars.

Capital Management

The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern so that it can provide returns and benefits for shareholders and advance the exploration of its mineral properties.

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of equity, comprising share capital, net of accumulated deficit. The Company depends on external financing to fund its activities and may issue new equity instruments to maintain its capital structure. The Company manages its capital structure through the preparation of operating budgets, which are approved by the Board of Directors.

There were no changes in the Company's approach to capital management during the year ended December 31, 2012.

The Company is not subject to any externally imposed capital requirements.

7. Related Party Transactions

Loans from directors

The Company received a \$400,000 non-interest-bearing unsecured loan from a director during the period ended December 31, 2011. The loan was outstanding for 36 days and was repaid in full by the Company on December 23, 2011. There were no loans from directors during the year ended December 31, 2012.

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

7. Related Party Transactions – Continued

Key management personnel compensation

Key management personnel consists of the Company's directors and officers. In addition to management and consulting fees paid to these individuals, or companies controlled by these individuals, the Company provides non-cash benefits to an executive officer. The aggregate value of compensation with key management personnel for the period ending December 31, 2012 was \$1,000,782 (2011-\$225,007) and was comprised of the following:

	Year ended December 31, 2012	Period from Incorporation on May 3, 2011 to December 31, 2011
Wages, salaries and consulting fees	\$ 386,533	\$ 198,825
Share-based compensation	601,796	-
Non-cash benefits	12,453	2,557
Flow-through share benefit	-	23,625
	\$ 1,000,782	\$ 225,007

Related party transactions

Related party transactions and balances not disclosed elsewhere in these financial statements are as follows:

During the period ended December 31, 2012, the Company reimbursed \$181,023 of office expenses and salaries incurred by a company controlled by directors of the Company (2011-\$2,539).

During the period ended December 31, 2012, the Company reimbursed companies with common directors and key management \$134,799 for salaries, consulting, rent, utilities, office costs and property and equipment incurred on behalf of the Company (2011-\$213,237).

During the period ended December 31, 2012, the Company incurred expenses on behalf of a company with common directors and key management of \$nil for consulting and office expenses (2011-\$7,434).

No members of key management participated in private placements during the period ended December 31, 2012. During the period from incorporation on May 3, 2011 to December 31, 2011, key management participated in private placements and acquired or exercised control and direction over 7,823,800 common shares and 2,800,000 flow-through common shares for gross proceeds of \$706,200.

The balance payable to related parties at December 31, 2012 was \$6,727 (December 31, 2011 - \$18,298) and is included in accounts payable and accrued liabilities. These payables are unsecured, non-interest bearing and are expected to be repaid under normal trade terms.

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

7. Related Party Transactions – Continued

The amounts charged to the Company for the services provided have been determined by negotiation among the parties and, in certain cases, are covered by signed agreements. These transactions were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the related parties.

8. Income Taxes

The income tax provision recorded differs from the income tax obtained by applying the statutory income tax rate of 27.0% (2011-28.5%) to the income for the year and is reconciled as follows:

	Year ended December 31, 2012	Period from Incorporation on May 3, 2011 to December 31, 2011
Loss before income taxes	\$ (4,291,659)	\$ (540,381)
Statutory Canadian federal and provincial tax rates	27.0%	28.5%
Expected tax recovery	(1,158,748)	(154,009)
Non-deductible (deductible) expenses		
Difference in tax rates	(67,493)	7,755
Permanent and other differences	518,990	6,664
Tax benefit not recognized	707,251	139,590
	\$ -	\$ -

The Canadian income tax rate declined during the year due to changes in enacted federal and provincial corporate income tax rates in Canada.

At December 31, 2012, the Company had estimated net operating losses carried forward of approximately \$1,677,000 in Canada (2011- \$510,000) (expiring in 2031 to 2032) available to reduce future taxable income. In addition to its loss carryforwards, the Company has deductible temporary differences of approximately \$1,185,000, relating primarily to exploration and evaluation costs, available to reduce future taxable income. Tax attributes are subject to review and potential adjustment by tax authorities.

The tax effects on the temporary differences that give rise to the Company's unrecognized deferred tax assets and liabilities are as follows:

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

8. Income Taxes - Continued

	2012	2011
Non-capital and capital loss carryforwards	\$ 452,790	\$ 137,625
Exploration and evaluation costs	285,625	-
Share issuance costs	103,651	877
Equipment	4,775	1,088
Unrecognized deferred tax asset	846,841	139,590

The future income tax rate that is estimated to be applicable when the temporary differences reverse is estimated to be 27% in Canada and 30% in Greenland.

At December 31, 2012 and 2011, there are no material temporary differences associated with investments in subsidiary companies.

9. Segmented Information

Operating segments are defined as components of an enterprise about which separate financial information is available that is evaluated regularly by the chief operating decision maker, or decision-making group, in deciding how to allocate resources and in assessing performance. All of the Company's operations are within the mining sector and the Company's operations are segmented by the location of its mineral properties.

	December 31, 2012		
	Canada	Greenland	Total
Current assets	\$ 333,290	\$ -	\$ 333,290
Equipment	48,905	-	48,905
Exploration and evaluation assets	2,922,165	2,451,222	5,373,387
Total Assets	\$ 3,304,360	\$ 2,451,222	\$ 5,755,582
Total Liabilities	\$ 65,600	\$ 10,438	\$ 76,038
Project evaluation expenses	\$ -	\$ 2,249,765	\$ 2,249,765
Other expenses	2,041,894	-	2,041,894
Net Loss	\$ 2,041,894	\$ 2,249,765	\$ 4,291,659

West Melville Metals Inc.

(An Exploration Stage Company)

Notes to the Consolidated Financial Statements

For the Year ended December 31, 2012 and the Period from Incorporation (May 3, 2011) to December 31, 2011

(Amounts are expressed in Canadian Dollars)

9. Segmented Information - Continued

	December 31, 2011		
	Canada	Greenland	Total
Current assets	\$ 1,180,882	\$ -	\$ 1,180,882
Equipment	54,519	-	54,519
Exploration and evaluation assets	460,886	419,200	880,086
Total Assets	\$ 1,696,287	\$ 419,200	\$ 2,115,487
Total Liabilities	\$ 244,142	\$ 51,085	\$ 295,227
Project evaluation expenses	\$ -	\$ 216,021	\$ 216,021
Other expenses	324,360	-	324,360
Net Loss	\$ 324,360	\$ 216,021	\$ 540,381