# GOSSAN RESOURCES LIMITED

## FINANCIAL STATEMENTS

## YEARS ENDED MARCH 31, 2013 AND 2012

## (EXPRESSED IN CANADIAN DOLLARS)

## MANAGEMENT'S RESPONSIBILITY LETTER

Management acknowledges responsibility for the preparation and presentation of the financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and necessarily include amounts based on estimates and judgments of management.

MNP LLP, our independent auditors, is engaged to express a professional opinion on the financial statements. Their examination is conducted in accordance with Canadian generally accepted auditing standards and includes tests and other procedures which allow the auditors to report whether the financial statements prepared by management are presented fairly in accordance with IFRS.

The Board of Directors must ensure that management fulfils its responsibilities for financial reporting. In furtherance of the foregoing, the Board of Directors has appointed an Audit Committee composed of three directors, two of whom are independent. The Audit Committee meets with the independent auditors to discuss the results of their audit report prior to submitting the financial statements to the Board of Directors for its approval. On the recommendation of the Audit Committee, the Board of Directors has approved the Company's financial statements.

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

"Douglas Reeson"
President and C.E.O.

"Andrew Thomson"
Director

To the Shareholders of Gossan Resources Limited:

We have audited the accompanying financial statements of Gossan Resources Limited, which comprise the statements of financial position as at March 31, 2013 and 2012, and the statements of earnings (loss) and comprehensive earnings (loss), cash flows and changes in shareholders' equity for the years then ended, and a summary of significant accounting policies and other explanatory information.

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

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

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

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

*Opinion*
In our opinion, the financial statements present fairly, in all material respects, the financial positions of Gossan Resources Limited as at March 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

*Emphasis of Matter*
Without qualifying our opinion, we draw attention to Note 1 to the financial statements which indicates that the Company has incurred ongoing operating losses and negative cash flows from operations. These conditions, along with other matters as set forth in Note 1, indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Winnipeg, Manitoba

MNP LLP

July 29, 2013

Chartered Accountants

# Gossan Resources Limited
**STATEMENTS OF FINANCIAL POSITION**
**(Expressed in Canadian Dollars)**

| As at March 31, | 2013 | 2012 |
|---|---|---|
| **ASSETS** | | |
| **Current Assets** | | |
| Cash | **$ 495,700** | $ 1,379,865 |
| Restricted cash (Note 14) | **200,000** | 200,000 |
| Short term investments | **20,004** | 20,004 |
| Accounts receivable | **6,381** | 33,183 |
| Prepaid expenses | **-** | 23,329 |
| | **722,085** | 1,656,381 |
| **Non-Current** | | |
| Equipment (Note 6) | **2,787** | 4,475 |
| | **$ 724,872** | $ 1,660,856 |
| **LIABILITIES** | | |
| **Current** | | |
| Accounts payable and accrued liabilities | **$ 61,548** | $ 135,184 |
| Due to related parties (Note 12) | **30,943** | 209,907 |
| | **92,491** | 345,091 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (Note 7) | **11,851,494** | 11,844,894 |
| Warrants (Note 9) | **120,071** | 120,071 |
| Contributed surplus | **1,421,931** | 1,334,110 |
| Deficit | **(12,761,115)** | (11,983,310) |
| | **632,381** | 1,315,765 |
| | **$ 724,872** | $ 1,660,856 |

*See accompanying notes to these financial statements.*

Nature of Operations and Going Concern (Note 1)
Contingencies and Commitments (Note 13)
Subsequent Event (Note 16)

**Approved on Behalf of the Board:**

*"Douglas Reeson"*
**Director**

*"Andrew Thomson"*
**Director**

## Gossan Resources Limited

**STATEMENTS OF EARNINGS (LOSS) AND COMPREHENSIVE EARNINGS (LOSS)**
**(Expressed in Canadian Dollars)**

| For the years ended March 31, | | 2013 | | 2012 |
|---|---|---|---|---|
| **Expenses** | | | | |
| Exploration and evaluation expenditures (Note 5) | $ | 266,015 | $ | 245,994 |
| General and administrative (Note 11) | | 511,790 | | 608,429 |
| **Loss before the following** | | (777,805) | | (854,423) |
| Recovery/gain on Bird River Joint Venture (Note 5) | | - | | 350,000 |
| Gain on sale of interest in TCN (Note 14) | | - | | 873,836 |
| **Net (loss) earnings from continuing operations** | | (777,805) | | 369,413 |
| Net income from discontinued operations (Note 14) | | - | | 221,464 |
| **Net (loss) earnings and comprehensive (loss) earnings for the year** | $ | (777,805) | $ | 590,877 |
| **Basic and diluted net (loss) earnings and comprehensive (loss) earnings per share** (Note 10) | $ | (0.02) | $ | 0.02 |
| **Basic and diluted net (loss) earnings per share** | | | | |
| - Continuing operations (Note 10) | $ | (0.02) | $ | 0.01 |
| - Discontinued operations (Note 10) | $ | 0.00 | $ | 0.01 |
| **Weighted average number of common shares outstanding** | | 33,158,679 | | 30,510,789 |

*See accompanying notes to these financial statements.*

# Gossan Resources Limited

**STATEMENTS OF CASH FLOWS**
**(Expressed in Canadian Dollars)**

| For the years ended March 31, | 2013 | 2012 |
|---|---|---|
| **Cash (used in) provided by:** | | |
| **Operating Activities** | | |
| Net earnings (loss) | $ (777,805) | $ 590,877 |
| Adjustment for: | | |
| Depreciation | 1,688 | 6,565 |
| Minority interest in net earnings | - | 107,816 |
| Shares issued for exploration and evaluation expenses | - | 7,500 |
| Recovery/gain on Bird River Joint Venture (Note 5) | - | (350,000) |
| Gain on sale of interest in TCN (Note 14) | - | (873,836) |
| Stock-based compensation | 89,621 | 72,530 |
| Non-cash working capital items: | | |
| Accounts receivable | 26,802 | (161,335) |
| Prepaid expenses | 23,329 | (10,814) |
| Accounts payable and accrued liabilities | (73,636) | (11,163) |
| Due to related parties | (178,964) | 104,034 |
| | (888,965) | (517,826) |
| **Investing Activities** | | |
| Cash dividend paid to TCN shareholders | - | (58,369) |
| Acqusition of furniture and equipment | - | (3,302) |
| Deferred income received | - | 50,000 |
| Cash proceeds on sale of interest in TCN | - | 1,510,000 |
| Cash costs on sale of interest in TCN | - | (186,545) |
| Change in restricted cash | - | (200,000) |
| Cash surrendered on sale of interest in TCN | - | (237,602) |
| | - | 874,182 |
| **Financing Activities** | | |
| Issuance of share capital - net of costs of issue | 4,800 | 610,961 |
| **Net change in cash from continuing operations** | (884,165) | 967,317 |
| **Cash, beginning of year** | 1,379,865 | 412,548 |
| **Cash, end of year** | $ 495,700 | $ 1,379,865 |

*See accompanying notes to these financial statements.*

## Gossan Resources Limited
**STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**
**(Expressed in Canadian Dollars)**

| | Share Capital | Warrants | Contributed Surplus | Deficit | Total |
|---|---|---|---|---|---|
| **Balance, March 31, 2011** | $ 11,340,594 | $ - | $ 1,267,490 | $ (12,574,187) | $ 33,897 |
| Exercise of stock options - cash | 16,404 | - | - | - | 16,404 |
| Exercise of stock options - Black-Scholes valuation | 5,910 | - | (5,910) | - | - |
| Stock-based compensation | - | - | 72,530 | - | 72,530 |
| Private placement | 603,600 | - | - | - | 603,600 |
| Cost of issue | (9,043) | - | - | - | (9,043) |
| Fair value of warrants issued | (120,071) | 120,071 | - | - | - |
| Shares issued for exploration and evaluation expenditures | 7,500 | - | - | - | 7,500 |
| Net earnings and comprehensive earnings for the year | - | - | - | 590,877 | 590,877 |
| **Balance, March 31, 2012** | **$ 11,844,894** | **$ 120,071** | **$ 1,334,110** | **$ (11,983,310)** | **$ 1,315,765** |
| Exercise of stock options - cash | 4,800 | - | - | - | 4,800 |
| Exercise of stock options - Black-Scholes valuation | 1,800 | - | (1,800) | - | - |
| Stock-based compensation | - | - | 89,621 | - | 89,621 |
| Net loss and comprehensive loss for the year | - | - | - | (777,805) | (777,805) |
| **Balance, March 31, 2013** | **$ 11,851,494** | **$ 120,071** | **$ 1,421,931** | **$ (12,761,115)** | **$ 632,381** |

*See accompanying notes to these financial statements.*

## 1. Nature of Operations and Going Concern

Gossan Resources Limited (the "Company") is a public corporation that was incorporated federally on June 16, 1980. The Company, directly and through joint ventures is in the business of acquiring and exploring resource properties that it believes contain mineralization. To date, the Company is considered to be in the exploration and development stage.

The Company's head office is located at 171 Donald Street, Suite 404, Winnipeg, Manitoba, Canada, R3C 1M4.

These financial statements have been prepared on the basis of a going concern, which presumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company has not earned significant revenues. The ability of the Company to continue as a going concern is dependent upon the discovery of economically recoverable reserves; confirmation of the Company's ownership in the underlying mineral claims; the acquisition of required permits to mine; the ability of the Company to obtain necessary financing to complete exploration and development; and the future profitable production or proceeds from disposition of such properties. These financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. All of these outcomes are uncertain and taken together indicate the existence of material uncertainties that cast significant doubt over the ability of the Company to continue as a going concern.

As the Company has no revenue producing mines, the Company's ability to continue as a going concern is dependent upon its ability to raise funds in the capital markets, or through the sale of assets. The Company is in the exploration and evaluation stage and as is common with many exploration companies, it raises financing for its exploration and acquisition activities in discrete tranches. The Company had working capital of $629,594 at March 31, 2013 (2012 - $1,311,290). At March 31, 2013, the Company had sufficient funds to finance its current exploration plans and expects to be a going concern for the next twelve months. Further financing will be required for operations beyond the next twelve months. While there is no assurance these funds can be raised, the Company believes such financing will be available as required. The Company's discretionary exploration activities do have considerable scope for flexibility in terms of the amount and timing of exploration expenditure, and expenditures may be adjusted accordingly.

The Company is traded on the TSX Venture Exchange under the symbol "GSS" and on the Frankfurt/Freiverkehr & Xetra Exchanges under the symbol "GSR" (WKN 904435).

The financial statements were approved by the Board of Directors on July 29, 2013.

## 2. Significant Accounting Policies

### a) Statement of Compliance

These financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") and their interpretations adopted by the International Accounting Standards Board ("IASB") and the Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") which the Canadian Accounting Standards Board has approved for incorporation into Part 1 of the Handbook of the Canadian Institute of Chartered Accountants.

### b) Basis of Presentation

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

In the preparation of these financial statements, management is required to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of expenses during the period. Actual results could differ from these estimates. Of particular significance are the estimates and assumptions used in the recognition and measurement of items included in note 2(r).

## 2. Significant Accounting Policies (Continued)

### c) Revenue Recognition

Revenue is recognized when the underlying services have been performed and there is a reasonable expectation of collection. The Company recognizes interest income on its cash and cash equivalents on an accrual basis at the stated rates over the term to maturity. Revenue from investments is recognized when it is sold and it is deemed collectible.

### d) Short Term Investments

Short term investments are comprised of guaranteed investment certificates and term deposits with initial terms to maturity of over ninety days but less than one year.

### e) Financial Assets

The Company's financial instruments consist of the following financial assets and liabilities, classified as follows:

| | |
|---|---|
| Cash and restricted cash | Fair value through profit and loss ("FVTPL") |
| Short term investments | FVTPL |
| Accounts receivable | Loans and receivables |
| Accounts payable and accrued liabilities | Other financial liabilities |
| Due to related parties | Other financial liabilities |

Fair Value Through Profit and Loss

Financial assets are classified as FVTPL when acquired principally for the purpose of trading, if so designated by management (fair value option), or if they are derivative assets that are not part of an effective and designated hedging relationship. Financial assets classified as FVTPL are measured at fair value, with changes recognized in the statements of earnings (loss).

The Company does not currently hold any derivative instruments or apply hedge accounting.

Loans and Receivables

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are initially recognized 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.

Available-for-sale Financial Assets

Available-for-sale ("AFS") financial assets are non-derivative financial assets that are either designated as available-for-sale or not classified in any of the other financial asset categories. Changes in the fair value of AFS financial assets other than impairment losses are recognized as other comprehensive income and classified as a component of equity. AFS assets include investments in listed equity of other entities.

Management assesses the carrying value of AFS financial assets at least annually and any impairment charges are recognized in profit or loss. When financial assets classified as AFS are sold, the accumulated fair value adjustments recognized in other comprehensive income are included in earnings (loss).

**2. Significant Accounting Policies (Continued)**

**e) Financial Assets (Continued)**

Other Financial Liabilities

Other financial liabilities are recognized initially at fair value net of any directly attributable transaction costs. Subsequent to initial recognition, these financial liabilities are measured at amortized cost using the effective interest method. The effective interest method is a method of calculating the amortized cost of a financial liability and of allocating interest and any transaction costs over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments through the expected life of the financial liability or (where appropriate) to the net carrying amount on initial recognition.

Other financial liabilities are de-recognized when the obligations are discharged, cancelled or expired.

Impairment of Financial Assets

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

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

The carrying amount of financial assets is reduced by any impairment loss directly for all financial assets with the exception of accounts receivable, where the carrying amount is reduced through the use of an allowance account. When an account receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

**f) Financial Instruments Recorded at Fair Value**

Financial instruments recorded at fair value on the statement of financial position are classified using a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

- Level 1 - valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2 - valuation techniques based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices);
- Level 3 - valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

## 2. Significant Accounting Policies (Continued)

### f) Financial Instruments Recorded at Fair Value (Continued)

As of March 31, 2013, and March 31, 2012, the fair values of accounts receivable, accounts payable and accrued liabilities, and due to related parties and approximate their carrying value due to their short term nature.

At the end of each reporting period, the Company reviews the carrying amounts of its non-financial assets with finite lives to determine whether there is any indication that those assets have suffered an impairment loss. Where such an indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. In addition, long-lived assets that are not amortized are subject to an annual impairment assessment. In the case of exploration and evaluation assets, impairment reviews are carried out on a property-by-property basis, with each capitalized property representing a potential cash-generating unit. As at March 31, 2013, all exploration and evaluation costs have been expensed as incurred and no amounts have been capitalized.

Fair Value Hierarchy and Liquidity Risk Disclosure

The following summarizes the methods and assumptions used in estimating the fair value of the Company's financial instruments where measurement is required. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgment. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the statement of financial position, have been prioritized into three levels as per the fair value hierarchy.

| | Level 1 | Level 2 | Level 3 |
|---|---|---|---|
| Cash | $ 495,700 | $ - | $ - |
| Restricted cash | $ 200,000 | $ - | $ - |
| Short term investments | $ 20,004 | $ - | $ - |

### g) Exploration and Evaluation Expenditures

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

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

### h) Flow-through Shares

Flow-through shares are a unique Canadian tax incentive. Under IAS 8, the Company may apply judgment on accounting policies in the absence of specific guidance within IFRS. Therefore, the Company has adopted a policy whereby flow-through proceeds are allocated between the offering of the common shares and the sale of tax benefits when the common shares are offered. The allocation is made based on the difference between the quoted price of the common shares and the amount the investor pays for the flow-through shares. A deferred tax liability is recognized for the premium paid (if any) by the investors and is then recognized as a deferred income tax recovery in the period of renunciation if the Company has sufficient unrealized tax losses and deductions.

## 2. Significant Accounting Policies (Continued)

### i) Joint Ventures

A joint venture can take the form of a jointly controlled entity, jointly controlled operation or jointly controlled asset. All joint ventures involve a contractual arrangement that establishes joint control. A jointly controlled entity is an entity in which the Company shares joint control over the strategic, financial and operating decisions with one or more venturers through the establishment of a corporation, partnership or other entity. A jointly controlled operation involves the use of the assets and resources of the venturers rather than the establishment of a corporation, partnership or other entity. The operation incurs its own expenses and liabilities and raises its own finances. A jointly controlled asset involves joint control of one or more of the assets acquired or contributed for the purpose of the joint venture. Each venturer takes on a share of the output from the assets and bears an agreed share of the expenses.

These financial statements reflect only the Company's proportionate interest in the Pipestone Lake property. The Company's proportionate share of the assets, liabilities, revenues, expenses, and cash flows of the properties are included in the financial statements. Where the Company transacts with the properties, it eliminates unrealized profits and losses to the extent of its own interest.

### j) Cash

Cash includes cash on hand, and on deposit with a Chartered bank in Canada.

### k) Equipment

Furniture and equipment are stated at cost less accumulated amortization. Amortization is recorded on the declining balance basis at rates designed to amortize the cost of the equipment over their estimated useful lives, based on the following annual rates:

| | |
|---|---|
| Computer equipment | 30% |
| Computer software | 100% |
| Field equipment | 20% |
| Furniture and fixtures | 20% |

### l) Provisions

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

A provision for onerous contracts is recognized when the expected benefits to be derived by the Company from a contract are lower than the unavoidable cost of meeting its obligations under the contract.

The Company had no material provisions for the years ended March 31, 2013 or 2012.

**2. Significant Accounting Policies (Continued)**

**m) Restoration, Rehabilitation and Environmental Obligations**

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of a mineral property interest. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pretax rate that reflects the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation. Costs for restoration of subsequent site damage that is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses.

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

**n) Share-based Payment Transactions**

The fair value of equity-settled share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors of the Company.

The fair value is measured at grant date and recognized over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option-pricing model, taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

**o) Income Taxes**

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the asset and liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes and the initial recognition of assets or liabilities that affect neither accounting nor taxable profit. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilised. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, that asset is not recognized.

**2. Significant Accounting Policies (Continued)**

**p) Earnings (Loss) Per Share**

The Company presents basic and diluted earnings (loss) per share data for its common shares, calculated by dividing the earnings (loss) attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share, which reflects the maximum possible dilution from the potential exercise of warrants and stock options, is the same as basic loss per share for the years ended March 31, 2013 and 2012.

**q) Government Assistance**

The Company periodically applies for financial assistance under available government incentive programs. All government assistance received is reflected as a reduction to the related asset category.

**r) Significant Accounting Judgments and Estimates**

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates that, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Critical Accounting Estimates

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

- the recoverability of amounts receivable that are included in the statements of financial position;
- the inputs used in accounting for share-based payment transactions in profit or loss in prior periods;
- no material restoration, rehabilitation and environmental cost, based on the facts and circumstances that existed during the period; and
- management's position that there is no income tax considerations required within these financial statements.

Critical Accounting Judgments

The categorization of financial assets and liabilities requires management to make judgments and assessments.

**s) New Accounting Standards Adopted**

IAS 1, Presentation of Financial Statements, was amended to require an entity to group items presented in other comprehensive income into those that: (a) will not be reclassified subsequently to profit or loss and (b) will be reclassified subsequently to profit or loss. The amendment is applicable for annual periods beginning on or after July 1, 2012. This has changed the Company’s current presentation of items in other comprehensive income; however, it has not affected the measurement or recognition of such items.

**2. Significant Accounting Policies (Continued)**

**t) Future Accounting Changes**

The following standards have not yet been adopted and are being evaluated to determine their impact on the Company.

(i) IFRS 9 – Financial instruments ("IFRS 9") was issued by the IASB in October 2010 and will replace IAS 39 Financial Instruments: Recognition and Measurement ("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 rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The IASB has proposed to move the effective date of IFRS 9 to January 1, 2015.

(ii) IFRS 10 – Consolidated financial statements ("IFRS 10") was issued by the IASB in May 2011. IFRS 10 is a new standard which identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent company. Control is comprised of three elements: power over an investee; exposure to variable returns from an investee; and the ability to use power to affect the reporting entity's returns. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted.

(iii) IFRS 11 – Joint arrangements ("IFRS 11") was issued by the IASB in May 2011. IFRS 11 is a new standard which focuses on classifying joint arrangements by their rights and obligations rather than their legal form. Entities are classified into two groups: parties having rights to the assets and obligations for the liabilities of an arrangement, and rights to the net assets of an arrangement. Entities in the former case account for assets, liabilities, revenues and expenses in accordance with the arrangement, whereas entities in the latter case account for the arrangement using the equity method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(iv) IFRS 12 – Disclosure of interests in other entities ("IFRS 12") was issued by the IASB in May 2011. IFRS 12 is a new standard which provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles, and off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(v) IFRS 13 – Fair value measurement ("IFRS 13") was issued by the IASB in May 2011. IFRS 13 is a new standard which provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRSs. The key points of IFRS 13 are as follows:

- fair value is measured using the price in a principal market for the asset or liability, or in the absence of a principal market, the most advantageous market;
- financial assets and liabilities with offsetting positions in market risks or counterparty credit risks can be measured on the basis of an entity's net risk exposure;
- disclosures regarding the fair value hierarchy has been moved from IFRS 7 to IFRS 13, and further guidance has been added to the determination of classes of assets and liabilities;
- a quantitative sensitivity analysis must be provided for financial instruments measured at fair value;
- a narrative must be provided discussing the sensitivity of fair value measurements categorized under Level 3 of the fair value hierarchy to significant unobservable inputs;
- and information must be provided on an entity's valuation processes for fair value measurements categorized under Level 3 of the fair value hierarchy.

**2. Significant Accounting Policies (Continued)**

**t) Future Accounting Changes (Continued)**

IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(vi) In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13.

**u) Presentation and Functional Currency**

The Company's presentation currency is in Canadian ("CDN") dollar and the functional currency of its operations is the CDN dollar as it was assessed by management that the CDN dollar is the currency of the primary economic environment in which the Company operates.

**v) Contingencies**

By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

**3. Capital Management**

The Company manages its capital with the following objectives:

• To ensure sufficient financial flexibility to achieve the ongoing business objectives including funding of future growth opportunities, and pursuit of accretive acquisitions; and

• To maximize shareholder return through enhancing the share value.

The Company monitors its capital structure and makes adjustments according to market conditions in an effort to meet its objectives given the current outlook of the business and industry in general. The Company may manage its capital structure by issuing new shares, repurchasing outstanding shares, adjusting capital spending, or disposing of assets. The capital structure is reviewed by Management and the Board of Directors on an ongoing basis.

The Company considers its capital to be shareholders' equity, comprising share capital, contributed surplus, warrants, and deficit, which at March 31, 2013, totalled $632,381 (2012 - $1,315,765).

The Company manages capital through its financial and operational forecasting processes. The Company reviews its working capital and forecasts its future cash flows based on operating and capital expenditures, and other investing and financing activities. The forecast is updated based on activities related to its mineral properties. Selected information is provided to the Board of Directors of the Company. The Company's capital management objectives, policies and processes have remained unchanged during the years ended March 31, 2013 and 2012. The Company is not subject to externally imposed capital requirements.

**4. Mineral Property and Financial Risk Factors**

a) Mineral Property Risk

The Company's major mineral properties are listed in Note 5. Unless the Company acquires or develops additional material mineral properties, the Company will be mainly dependent upon its existing properties. If no additional major mineral properties are acquired by the Company, any adverse development affecting the Company's properties would have a materially adverse effect on the Company's financial condition and results of operations.

**4. Mineral Property and Financial Risk Factors (Continued)**

b) Financial Risk

The Company's activities expose it to a variety of financial risks: credit risk, liquidity risk and market risk (including interest rate, foreign currency rate, commodity and equity price risk).

Risk management is carried out by the Company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

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 cash, short term investments and accounts receivable. Cash and short term investments are held with select major Canadian chartered banks, from which management believes the risk of loss to be minimal.

Management believes that the credit risk with respect to financial instruments included in accounts receivable is minimal. Other accounts receivable consist of sales tax receivable from government authorities in Canada. Accounts receivable are in good standing as of March 31, 2013.

Liquidity Risk

Liquidity risk is the risk that the Company will not have sufficient cash resources to meet its financial obligations as they come due. The Company's liquidity and operating results may be adversely affected if its access to the capital market is hindered, whether as a result of a downturn in stock market conditions generally or matters specific to the Company. The Company generates cash flow primarily from its financing activities. As at March 31, 2013, the Company had cash from continuing operations of $495,700 (2012 - $1,379,865) to settle current liabilities of $92,491 (2012 - $345,091). All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms. The Company regularly evaluates its cash position to ensure preservation and security of capital as well as liquidity.

Market Risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign currency rates, and commodity and equity prices.

*Interest Rate Risk*

The Company has cash balances and no interest-bearing debt. The Company's current policy is to invest excess cash in guaranteed investment certificates or interest-bearing accounts of major Canadian chartered banks. The Company regularly monitors compliance to its cash management policy.

*Foreign Currency Risk*

The Company's functional and reporting currency is the Canadian dollar and major purchases are transacted in Canadian dollars. As a result, the Company's exposure to foreign currency risk is minimal.

*Price Risk*

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices, as they relate to gold, vanadium, titanium, base metals, PGE's, magnesium, aluminum, proppant sand, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

**4. Mineral Property and Financial Risk Factors (Continued)**

b) Financial Risk (Continued)

**Sensitivity Analysis**

Based on management's knowledge and experience of the financial markets, the Company believes the following movements are reasonably possible over a one year period:

(i) The Company has no term debt and receives low interest rates on its cash balances. As such the Company does not have significant interest rate risk.

(ii) The Company does not hold balances in foreign currencies to give rise to exposure to foreign exchange risk.

(iii) Commodity price risk could adversely affect the Company. In particular, the Company's future profitability and viability from mineral exploration depends upon the world market price of valuable minerals. Commodity prices have fluctuated significantly in recent years. There is no assurance that, even as commercial quantities of minerals may be produced in the future, a profitable market will exist for them.

As of March 31, 2013, the Company is not a producer of valuable minerals. As a result, commodity price risk may affect the completion of future equity transactions such as equity offerings and the exercise of stock options. This may also affect the Company's liquidity and its ability to meet its ongoing obligations.

(iv) Mineral property risk is significant. In particular, if an economic orebody is not found, the Company cannot enter into commercial production and generate sufficient revenues to fund its continuing operations. There can be no assurance that the Company will generate any revenues or achieve profitability or provide a return on investment in the future from any of the properties it may have an interest in.

**5. Exploration and Evaluation Expenditures**

| | Historical Expenditures, March 31, 2012 | Current Expenditures | Historical Expenditures, March 31, 2013 |
|---|---|---|---|
| Pipestone Lake (i) | $ 1,798,011 | $ 12,365 | $ 1,810,376 |
| Bird River (ii) | 878,216 | 5,791 | 884,007 |
| Inwood (iii) | 921,484 | 200,380 | 1,121,864 |
| Separation Rapids | 192,176 | - | 192,176 |
| Manigotagan Silica | 769,697 | 11,271 | 780,968 |
| Sharpe Lake | 480,646 | 420 | 481,066 |
| Other | 2 | - | 2 |
| | $ 5,040,232 | $ 230,227 | $ 5,270,459 |

*In addition to the above expenditures, during the year ended March 31, 2013, the Company incurred $35,788 in evaluation expenditures on prospective property interests.*

**5. Exploration and Evaluation Expenditures (Continued)**

| | Historical Expenditures, March 31, 2011 | Current Expenditures | Historical Expenditures, March 31, 2012 |
|---|---|---|---|
| Pipestone Lake (i) | $ 1,729,126 | $ 68,885 | $ 1,798,011 |
| Bird River (ii) | 877,579 | 637 | 878,216 |
| Inwood (iii) | 785,102 | 136,382 | 921,484 |
| Separation Rapids | 192,176 | - | 192,176 |
| Manigotagan Silica | 747,911 | 21,786 | 769,697 |
| Sharpe Lake | 480,469 | 177 | 480,646 |
| Other | 2 | - | 2 |
| | $ 4,812,365 | $ 227,867 | $ 5,040,232 |

*In addition to the above expenditures, during the year ended March 31, 2012, the Company incurred $18,127 in evaluation expenditures on prospective property interests. (see note 5(iv))*

(i) The Pipestone project is a 50% joint venture with Cross Lake Mineral Explorations Inc.

(ii) The Bird River project is wholly-owned by the Company. Prior to March 24, 2012, the project was held pursuant to a joint venture agreement with Stillwater Mining Company ("Stillwater") who acquired the interest from Marathon PGM Corporation. As a result of the formation and the subsequent activity of the joint venture, the Company recorded gains in the amount of $570,169 in prior years.

Under the terms of the termination of the agreement, in fiscal 2012, Stillwater released all claim to the $350,000 advance royalty payments previously made to Gossan, which have been reclassified from deferred revenue on the Company's balance sheet to recovery/(gain) on Bird River Joint Venture on the Company's statement of earnings (loss) and comprehensive earnings (loss).

(iii) On March 15, 2007, the Company entered into a licensing arrangement for a new magnesium production process ("the Zuliani Process"), including an option to secure exclusive worldwide rights to the Zuliani Process. A component of the consideration is the conditional payment of up to 150,000 common shares related to specific measurable events. On November 12, 2007, 100,000 common shares were issued with an assigned fair value of $21,000 related to the completion of Phase I of the arrangement. In fiscal 2009, an industrial research grant was received from the Government of Manitoba in the amount of $14,000 for work undertaken on the Zuliani Process.

On February 7, 2012, the Company issued 50,000 common shares, ascribed a fair value of $7,500, related to the completion of Phase 2 of the licensing agreement for the Zuliani Process. This amount has been charged to exploration and evaluation expenditures on the Company's statement of earnings (loss) and comprehensive earnings (loss).

On March 1, 2013, the Company was advised by Dr. Zuliani that he would not accept the Company's latest offer pertaining to the ongoing development and commercialization of the Zuliani Process for the primary production of magnesium metal and the original agreement (the 2007 Memorandum of Understanding) had expired.

(iv) The Company abandoned the Vermillion property after incurring $18,127 of expenditures evaluating the property, all during fiscal 2012.

## 6. Equipment

***COST***

| | Computer Equipment | Computer Software | Field Equipment | Furniture and Fixtures | Total |
|---|---|---|---|---|---|
| Balance, March 31, 2011 | $ 46,678 | $ 21,763 | $ 1,155 | $ 31,492 | $ 101,088 |
| Effect of sale of interest in TCN | $ (27,079) | $ (14,328) | $ - | $ (26,165) | $ (67,572) |
| **Balance, March 31, 2012 and 2013** | **$ 19,599** | **$ 7,435** | **$ 1,155** | **$ 5,327** | **$ 33,516** |

***ACCUMULATED DEPRECIATION***

| | Computer Equipment | Computer Software | Field Equipment | Furniture and Fixtures | Total |
|---|---|---|---|---|---|
| Balance, March 31, 2011 | $ 34,952 | $ 17,543 | $ 945 | $ 17,942 | $ 71,382 |
| Depreciation for the year | 1,372 | - | 42 | 275 | 1,689 |
| Effect of sale of interest in TCN | (19,929) | (10,108) | - | (13,993) | (44,030) |
| Balance, March 31, 2012 | $ 16,395 | $ 7,435 | $ 987 | $ 4,224 | $ 29,041 |
| Depreciation for the year | 1,372 | - | 40 | 276 | 1,688 |
| **Balance, March 31, 2013** | **$ 17,767** | **$ 7,435** | **$ 1,027** | **$ 4,500** | **$ 30,729** |

***CARRYING AMOUNTS***

| | Computer Equipment | Computer Software | Field Equipment | Furniture and Fixtures | Total |
|---|---|---|---|---|---|
| At March 31, 2011 | $ 11,726 | $ 4,220 | $ 210 | $ 13,550 | $ 29,706 |
| At March 31, 2012 | $ 3,204 | $ - | $ 168 | $ 1,103 | $ 4,475 |
| **At March 31, 2013** | **$ 1,832** | **$ -** | **$ 128** | **$ 827** | **$ 2,787** |

**7. Share Capital**

a) Authorized share capital

At March 31, 2013, the authorized share capital consisted of unlimited number of common shares. The common shares do not have a par value.

b) Common shares issued

At March 31, 2013, the issued share capital amounted to $11,851,494. The change in issued share capital for the period is as follows:

| | Number of Common Shares | Amount |
|---|---|---|
| Balance, March 31, 2011 | 29,207,900 | $ 11,340,594 |
| Private placement | 3,772,500 | 603,600 |
| Costs of issue | - | (9,043) |
| Issuance of warrants - Black-Scholes valuation | - | (120,071) |
| Exercise of options - cash | 110,000 | 16,404 |
| Exercise of options - Black-Scholes valuation | - | 5,910 |
| Shares issued for exploration and evaluation expenditures | 50,000 | 7,500 |
| **Balance, March 31, 2012** | **33,140,400** | **$ 11,844,894** |
| Exercise of options - cash | 30,000 | 4,800 |
| Exercise of options - Black-Scholes valuation | - | 1,800 |
| **Balance, March 31, 2013** | **33,170,400** | **$ 11,851,494** |

i) On February 7, 2012, the Company issued 50,000 common shares, ascribed a fair value of $7,500 pertaining to the completion of Phase 2 work on the Company's Inwood property. This amount has been charged to exploration and evaluation expenditures on the Company's statement of income (loss) and comprehensive income (loss).

ii) On November 22, 2011 and December 29, 2011, the Company closed two tranches of a private placement of 3,772,500 Units, totaling $603,600 in aggregate. Each Unit consists of one common share and one common share purchase warrant at a price of $0.16 per Unit. Each warrant entitles the holder thereof to purchase one additional common share of Gossan at an exercise price of $0.24 per share during the period ending November 29, 2013. All securities issued in the course of the Offering are subject to a regulatory hold period of four months and one day, and the common shares forming a component of the Unit are also subject to a voluntary hold period for a further 8 months, or one year in total.

The 3,772,500 warrants issued in connection with this private placement were assigned a fair value of $120,071, based on the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 85%; a risk-free interest rate of 1.0% and an expected average life of 1.7 years.

## 8. Stock Options

The following table reflects the continuity of stock options for the years ended March 31, 2013 and 2012:

| | Number of Stock Options | Weighted Average Exercise Price ($) |
|---|---|---|
| Balance, March 31, 2011 | 1,910,000 | 0.24 |
| Granted (vii)(viii)(ix)(x)(xii) | 990,000 | 0.17 |
| Exercised | (110,000) | 0.15 |
| Expired | (1,010,000) | 0.31 |
| **Balance, March 31, 2012** | **1,780,000** | **0.17** |
| Granted (i)(ii)(iii)(iv)(v)(vi) | 1,600,000 | 0.14 |
| Exercised | (30,000) | 0.16 |
| Expired | (410,000) | 0.18 |
| **Balance, December 31, 2012** | **2,940,000** | **0.15** |

(i) On April 13, 2012, the Company granted 200,000 incentive stock options to an investor relations consultant of the Company. The options are exercisable at $0.16 per share, expire on September 21, 2015, and vest at a rate of 25% every three months. The resulting fair value of $12,000 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 85%; a risk-free interest rate of 1.2% and an expected average life of 2.3 years. During the year ended March 31, 2013, $12,000 was charged to the Company's statement of earnings (loss) and comprehensive earnings (loss).

(ii) On April 13, 2012, the Company granted 250,000 incentive stock options to consultants, officers and directors of the Company. The options are exercisable at $0.16 per share, expire on September 21, 2015, and vest immediately upon grant. The resulting fair value of $15,000 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 85%; a risk-free interest rate of 1.2% and an expected average life of 2.3 years. During the year ended March 31, 2013, $15,000 was charged to the Company's statement of earnings (loss) and comprehensive earnings (loss).

(iii) On April 13, 2012, the Company granted 130,000 incentive stock options to consultants, officers and directors of the Company. The options are exercisable at $0.16 per share, expire on March 21, 2016, and vest immediately upon grant. The resulting fair value of $8,320 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 85%; a risk-free interest rate of 1.2% and an expected average life of 2.6 years. During the year ended March 31, 2013, $8,320 was charged to the Company's statement of earnings (loss) and comprehensive earnings (loss).

(iv) On April 13, 2012, the Company granted 280,000 incentive stock options to consultants, officers and directors of the Company. The options are exercisable at $0.16 per share, expire on March 21, 2017, and vest immediately upon grant. The resulting fair value of $19,600 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 85%; a risk-free interest rate of 1.2% and an expected average life of 3.1 years. During the year ended March 31, 2013, $19,600 was charged to the Company's statement of earnings (loss) and comprehensive earnings (loss).

**8. Stock Options (Continued)**

(v) On October 1, 2012, the Company granted 600,000 incentive stock options to officers and directors and 20,000 incentive options to consultants of the Company. The options are exercisable at $0.12 per share, have expiry dates from June 21, 2013 to September 21, 2017, and vest immediately upon grant. The resulting fair value of $33,440 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility from 55% to 85%; a risk-free interest rate of 1.2% and expected lives from 0.7 years to 3.1 years. During the year ended March 31, 2013, $33,440 was charged to the Company's statement of earnings (loss) and comprehensive earnings (loss).

(vi) On October 31, 2012, the Company granted 120,000 incentive stock options to a consultant of the Company. The options are exercisable at $0.12 per share, expire on March 28, 2014, and vest one quarter every three months from the date of the grant. The resulting fair value of $1,800 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 55%; a risk-free interest rate of 1.2% and an expected average life of 1.2 years. During the year ended March 31, 2013, $1,261 was charged to the Company's statement of earnings (loss) and comprehensive income (loss).

(vii) On June 24, 2011, the Company granted 690,000 incentive stock options to officers, directors and consultants of the Company. The options are exercisable at $0.17 per share, expire on March 26, 2015, and vest immediately upon grant. The resulting fair value of $58,650 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 85%; a risk-free interest rate of 2.0% and an expected average life of 2.6 years. During the year ended March 31, 2012, $58,650 was charged to the Company's statement of earnings (loss) and comprehensive earnings (loss).

(viii) On June 24, 2011, the Company granted 150,000 incentive stock options to an officer of the Company. The options are exercisable at $0.17 per share, expire on March 26, 2016, and vest immediately upon grant. The resulting fair value of $13,500 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 85%; a risk-free interest rate of 2.0% and an expected average life of 3.0 years. During the year ended March 31, 2012, $13,500 was charged to the Company's statement of earnings (loss) and comprehensive earnings (loss).

(ix) On May 26, 2011, the Company amended the contractual life of 50,000 options, exercisable at $0.20 per share, previously granted to a director. The option lives were reduced to May 26, 2012. The incremental fair value of the option modification was determined to be $1,750 and recorded as reduction of share-based payments in the period of modification. The resulting fair value was estimated using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 85%; a risk-free interest rate of 3.0% and an expected life of 0.6 years. During the year ended March 31, 2012, $1,750 was credited to the Company's statement of earnings (loss) and comprehensive earnings (loss).

(x) On May 26, 2011, the Company amended the contractual life of 110,000 options, exercisable at $0.15 per share, previously granted to a director. The option lives were reduced to May 26, 2012. The incremental fair value of the option modification was determined to be $7,920 and recorded as a reduction of share-based payments in the period of modification. The resulting fair value was estimated using the Black-Scholes pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 85%; a risk-free interest rate of 2.0% and an expected life of 1.0 years. During the year ended March 31, 2012, $7,920 was credited to the Company's statement of earnings (loss) and comprehensive earnings (loss).

**8. Stock Options (Continued)**

(xi) On October 26, 2011, the Company granted 70,000 incentive stock options to a director of the Company. The options are exercisable at $0.16 per share, expire on March 25, 2014, and vest immediately upon grant. The resulting fair value of $4,130 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 85%; a risk-free interest rate of 1.0% and an expected average life of 1.8 years. During the year ended March 31, 2012, $4,130 was charged to the Company's statement of earnings (loss) and comprehensive earnings (loss).

(xii) On October 26, 2011, the Company granted 80,000 incentive stock options to a director of the Company. The options are exercisable at $0.16 per share, expire on March 25, 2016, and vest immediately upon grant. The resulting fair value of $5,920 was estimated using the Black-Scholes option pricing model with the following assumptions: expected dividend yield of 0%; expected volatility of 85%; a risk-free interest rate of 1.2% and an expected average life of 2.8 years. During the year ended March 31, 2012, $5,920 was charged to the Company's statement of earnings (loss) and comprehensive earnings (loss).

The resulting fair value for the above noted stock options is included in general and administrative expense on the Company's statements of earnings (loss) and comprehensive earnings (loss)

The following table reflects the actual stock options issued and outstanding as of March 31, 2013:

| Expiry Date | Exercise Price ($) | Weighted Average Remaining Contractual Life (years) | Number of Options Outstanding |
|---|---|---|---|
| June 21, 2013 | 0.12 | 0.47 | 100,000 |
| March 25, 2014 | 0.16 | 1.23 | 70,000 |
| March 28, 2014 | 0.15 | 1.24 | 460,000 |
| March 28, 2014 | 0.12 | 1.24 | 120,000 |
| March 26, 2015 | 0.17 | 2.23 | 610,000 |
| September 21, 2015 | 0.16 | 2.72 | 420,000 |
| September 21, 2015 | 0.12 | 2.72 | 80,000 |
| March 21, 2016 | 0.16 | 3.22 | 130,000 |
| March 21, 2016 | 0.12 | 3.22 | 70,000 |
| March 25, 2016 | 0.16 | 3.23 | 80,000 |
| March 26, 2016 | 0.17 | 3.24 | 150,000 |
| March 21, 2017 | 0.16 | 4.22 | 280,000 |
| March 21, 2017 | 0.12 | 4.22 | 80,000 |
| September 21, 2017 | 0.12 | 4.73 | 290,000 |
| | 0.15 | 2.42 | 2,940,000 |

Of the 2,940,000 options outstanding, 2,870,000 are exercisable.

## 9. Warrants

The following table reflects the continuity of warrants for the year ended March 31, 2013 and 2012:

| | Number of Warrants | Weighted Average Exercise Price ($) |
|---|---|---|
| Balance, March 31, 2011 | - | - |
| Granted | 3,772,500 | 0.24 |
| **Balance, March 31, 2012 and 2013** | **3,772,500** | **0.24** |

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

| Expiry Date | Number of Warrants | Weighted Average Exercise Price ($) |
|---|---|---|
| November 29, 2013 | 3,772,500 | 0.24 |

## 10. Net Earnings (Loss) per Common Share

Basic earnings (loss) per share is computed using the weighted average number of common shares outstanding during the year. Diluted earnings (loss) per share, which reflects the maximum possible dilution from the potential exercise of warrants and stock options, is the same as basic earnings (loss) per share for the years ended March 31, 2013 and 2012.

## 11. General and Administrative

| | **2013** | 2012 |
|---|---|---|
| Administrative fees | **$ 29,638** | $ 36,490 |
| Management fees | **82,200** | 114,000 |
| Consulting | **15,654** | 20,350 |
| Office and general | **97,043** | 67,751 |
| Public company costs | **128,106** | 201,495 |
| Investor relations | **62,602** | 74,371 |
| Travel and related | **5,238** | 19,753 |
| Stock-based compensation | **89,621** | 72,530 |
| Depreciation | **1,688** | 1,689 |
| | **$ 511,790** | $ 608,429 |

## 12. Related Party Balances and Transactions

Related parties include the Board of Directors, close family members and enterprises that are controlled by these individuals as well as certain persons performing similar functions.

The Company entered into the following transactions with related parties:

| For the years ended March 31, | | | 2013 | | 2012 |
|---|---|---|---|---|---|
| CEO fees | (i) | **$** | **70,200** | $ | 107,000 |
| Consulting fees paid to Directors | (ii) | **$** | **41,981** | $ | 29,460 |
| Marrelli Support Services Inc. ("MSSI") | (iii) | **$** | **41,638** | $ | 48,489 |
| Directors fees | (iv) | | **-** | | 39,000 |

(i) Chief Executive Officer fees for the period. As at March 31, 2013, $nil (2012 - $15,554) was included in due to related parties with respect to reimbursable expenditures.
(ii) Directors of the Company. Fees relate to geological and community engagement consulting services. As at March 31, 2013, $10,977 (2012 - $10,442) was included in due to related parties with respect to these fees.
(iii) The Chief Financial Officer ("CFO") of the Company is the president of MSSI. Fees related to accounting services provided by MSSI and the CFO function performed by Carmelo Marrelli. As at March 31, 2013, $9,916 (2012 - $9,000) was included in due to related parties with respect to these fees.
(iv) During fiscal 2013, fees were paid/accrued to Directors in the amount of $nil (2012 – $39,000) for directors' fees, including committee fees and other board activities. In the current year, nil (2012 - 25%) of the fees paid to directors were retained by the Company for acquisition of the Company's common shares on the directors' behalf. As at March 31, 2013, $10,050 (2012 - $74,911) was outstanding in regard to retained directors' fees.

As at March 31, 2013, the Chief Executive Officer had advanced $nil (2012 - $100,000) to the Company for general working capital purposes. The advances are non-interest bearing and due on demand. All amounts were repaid during the period.

Related party transactions conducted in the normal course of operations are measured at the exchange value (the amount established and agreed to by the related parties).

Other remuneration of Directors and Officers of the Company was as follows:

| For the years ended March 31, | | 2013 | | 2012 |
|---|---|---|---|---|
| Stock-based payments | **$** | **64,200** | $ | 59,250 |

### 13. Contingencies and Commitments

i) By agreement dated September 17, 2012, the Company is committed under an operation lease for its office premises with the following lease payments to the expiration of the lease on September 30, 2017.

| Year | Amount |
|---|---|
| 2014 | 12,913 |
| 2015 | 12,913 |
| 2016 | 12,913 |
| 2017 | 12,913 |
| 2018 | 6,457 |
| | $ 58,109 |

(ii) The Company has signed an agreement for the rental of a core storage facility. The Company is committed to lease payments amounting to $3,600 to the expiration of the lease on March 31, 2014.

### 14. Discontinued Operations

On March 7, 2012, the Company closed the sale of its Equity interest in The Claims Nework ("TCN") for a sale price of $1,510,000, resulting in a net gain on disposition of $873,836. Costs associated with this transaction amounted $186,545. Of the $1,510,000 gross proceeds, a restricted cash escrow of $200,000 was established pertaining to specific contingencies.

Prior to the sale, Gossan held a 66.34% controlling equity interest in TCN, a service provider to the property and casualty insurance industry. TCN is a web-based enterprise engaged in providing the insurance industry with contents loss valuations, on-site claims reporting of losses, and content claims software.

On October 4, 2011, TCN paid a dividend of $115,030 to Gossan, as allowed under the terms of a previous offer dated September 23, 2011.

The following tables set forth the statements of income and cash flows associated with assets classified as assets held for sale as at March 31, 2012.

## 14. Discontinued Operations (Continued)

### Statements of Income

| For the years ended March 31, | 2013 | 2012[i] |
|---|---|---|
| **Revenue from Operations** | | |
| Assessment revenue | $ - | $ 2,252,831 |
| Direct expenses | - | (1,537,112) |
| Gross Margin | - | 715,719 |
| **Expenses** | | |
| General and administrative | - | 245,227 |
| **Operating loss before the following items** | - | 470,492 |
| Minority interest in net income | - | (107,816) |
| **Net income before income taxes** | - | 362,676 |
| Income taxes | - | (141,212) |
| **Net income after taxes for the year** | $ - | $ 221,464 |

### Statements of Cash Flows

| For the years ended March 31, | 2013 | 2012[i] |
|---|---|---|
| **Operating Activities** | | |
| **Net income** | $ - | $ 221,464 |
| Adjustment for: | | |
| Depreciation | - | 4,876 |
| Minority interest in net income | - | 107,816 |
| Non-cash working capital items: | | |
| Accounts receivable | - | (206,928) |
| Prepaid expenses | - | (610) |
| Accounts payable and accrued liabilities | - | (57,253) |
| | - | 69,365 |
| **Investing Activities** | | |
| Acqusition of furniture and equipment | - | (3,302) |
| Cash dividend paid | - | (173,400) |
| Acquisition of short-term investments | - | (7) |
| Cash surrendered on sale of TCN | - | (237,602) |
| | - | (414,311) |
| **Net change in cash** | - | (344,946) |
| **Cash, beginning of year** | - | 344,946 |
| **Cash, end of year** | $ - | $ - |

[i] Amounts reflect activity for the period from April 1, 2011 to March 6, 2012, the effective date of disposition of TCN

## 15. Income Taxes

The following table reconciles the expected income tax expense (recovery) at the Canadian combined federal and provincial statutory income tax rate to the amount recognized in the statements of earnings (loss).

| | **2013** | 2012 |
|---|---|---|
| Earnings (loss) before income taxes | **$ (777,805)** | $ 839,905 |
| Expected income tax expense (recovery) at statutory rate of 27.00% (2012 - 28.12%) | **(210,007)** | 236,223 |
| Permanent difference due to stock-based compensation | **24,259** | 20,399 |
| Permanent difference due to capital gains | **-** | (146,997) |
| Change in prior year estimates | **-** | 5,455 |
| Tax benefits not recognized | **185,748** | 26,132 |
| Income tax expense (recovery) | **$ -** | $ 141,212 |

The statutory income tax rate changed from 28.12% for the year ended March 31, 2012 to 27.00% for the year ended March 31, 2013 as a result of the enacted reduction of Canadian federal corporate tax rates.

### Unrecognized Deferred Tax Assets

The following table reflects the gross unused tax losses and deductible temporary differences for which deferred tax assets have not been recognized in the financial statements:

| | **2013** | 2012 |
|---|---|---|
| Non-capital loss carry-forwards for Canadian purposes | **$ 3,522,705** | $ 3,418,074 |
| Exploration expenditures | **3,380,160** | 3,114,145 |
| Financing costs | **5,425** | 7,234 |
| Tax value in excess of carrying value of capital assets | **41,356** | 31,666 |

The Company's non-capital losses expire as follows:

| | |
|---|---|
| 2014 | 255,864 |
| 2015 | 383,862 |
| 2026 | 491,126 |
| 2027 | 511,190 |
| 2028 | 625,853 |
| 2030 | 443,986 |
| 2031 | 388,762 |
| 2033 | 422,062 |
| | $ 3,522,705 |

### 16. Subsequent Event

On June 25, 2013, the Company announced it had entered into a purchase and sale agreement to vend its Manigotagan Silica Frac Sand Project, comprised of 9 quarry leases located near Seymourville Manitoba, to Claim Post Resources Inc. ("Claim Post") (CPS-TSX.V). Gossan had been seeking a joint-venture partner or a purchaser for the Project since completing a marketing study in late 2010. In 2012, Claim Post acquired the adjacent Seymourville Property to the south and announced plans to develop a frac sand operation. A consolidation of the two properties should improve the viability of the project.

Under the terms of the agreement, Gossan has received 1,000,000 shares of Claim Post to be followed by 4 additional property payments on a semi-annual basis with a maximum cash value of $1,330,000, as well as, a royalty interest. On December 18, 2013, Gossan will receive an additional 2,000,000 shares of Claim Post or a cash payment of $200,000, at Claim Post's option. In 2014, Claim Post is required to make two cash payments of $350,000 each and a final cash property payment in 2015 of $430,000.

An initial annual advance royalty payment of $50,000 becomes payable as of June 18, 2016, unless the operation has commenced commercial production resulting in the payment of production royalties. All frac sand produced, sold and paid from the nine Manigotagan leases is subject to a $1.00 per tonne production royalty payable quarterly and all other products are subject to a $0.50 per tonne production royalty. Although the royalty is solely payable on production from the Manigotagan leases, the agreement also provides for a minimum production royalty from both the Manigotagan and Seymourville Properties based on their relative remaining mining reserves of frac sand with Gossan's Manigotagan Property having a deemed minimum mineable reserve of 6 million tonnes of frac sand. Claim Post can acquire one-half of Gossan's production royalty interest for $1.5 million at any time after making all of the required property payments.