



**CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2015**  
**(UNAUDITED – EXPRESSED IN CANADIAN DOLLARS)**

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

In accordance with National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that an auditor has not reviewed the financial statements.

The accompanying unaudited condensed interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Chartered Professional Accountants of Canada for a review of condensed interim financial statements by an entity's auditor.

**CAP-EX IRON ORE LTD.**

**CONDENSED INTERIM FINANCIAL STATEMENTS**

**MAY 31, 2015**

**(UNAUDITED – EXPRESSED IN CANADIAN DOLLARS)**

**Notice of No Auditor Review**

**Contents**

<b>Condensed Interim Statements of Financial Position</b>	<b>1</b>
<b>Condensed Interim Statements of Comprehensive Loss</b>	<b>2</b>
<b>Condensed Interim Statements of Cash Flows</b>	<b>3</b>
<b>Condensed Interim Statements of Changes in Shareholders' Equity</b>	<b>4</b>
<b>Notes to Condensed Interim Financial Statements</b>	<b>5</b>

**CAP-EX IRON ORE LTD.**  
**CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION**  
**(UNAUDITED – EXPRESSED IN CANADIAN DOLLARS)**

	May 31, 2015 \$	August 31, 2014 \$
<b>ASSETS</b>		
<b>Current</b>		
Cash	221,558	115,297
Restricted cash	-	72,500
Amounts receivable (Note 3)	4,882	18,925
Prepaid expenses	3,534	2,333
	229,974	209,055
Property and equipment (Note 4)	680,350	789,277
Exploration and evaluation properties (Note 5)	2	350,001
	680,352	789,278
<b>TOTAL ASSETS</b>	<b>910,326</b>	<b>1,348,333</b>
<b>LIABILITIES</b>		
<b>Current</b>		
Accounts payable and accrued liabilities (Note 9)	86,195	849,548
Loan - current portion (Note 6)	-	70,000
	86,195	919,548
Loan - long term portion (Note 6)	-	65,777
	-	65,777
<b>TOTAL LIABILITIES</b>	<b>86,195</b>	<b>985,325</b>
<b>SHAREHOLDERS' EQUITY</b>		
Share capital (Note 7)	33,374,341	33,040,827
Reserves (Note 8)	970,720	1,460,000
Deficit	(33,520,930)	(34,137,819)
<b>TOTAL SHAREHOLDERS' EQUITY</b>	<b>824,131</b>	<b>363,008</b>
<b>TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY</b>	<b>910,326</b>	<b>1,348,333</b>

**NATURE AND CONTINUANCE OF OPERATIONS (Note 1)**  
**COMMITMENTS (Notes 5 and 12)**  
**SUBSEQUENT EVENTS (Note 14)**

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

**CAP-EX IRON ORE LTD.**  
**CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE LOSS**  
**(UNAUDITED – EXPRESSED IN CANADIAN DOLLARS)**

	<b>For the three months ended May 31,</b>		<b>For the nine months ended May 31,</b>	
	<b>2015</b>	<b>2014</b>	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>	<b>\$</b>	<b>\$</b>
<b>Expenses</b>				
Consulting fees (Note 9)	4,500	12,959	12,000	323,807
Depreciation (Note 4)	23,783	32,634	71,348	45,600
Investor relations	9,779	20,436	17,313	35,025
Office and administration	19,599	15,555	67,741	127,774
Professional fees (recovery)	1,500	(1,311)	26,899	31,341
Share-based compensation (Note 9)	-	15,118	64,121	168,434
Travel and related	13,370	1,225	14,739	14,980
	<u>(72,531)</u>	<u>(96,616)</u>	<u>(274,161)</u>	<u>(746,961)</u>
Interest income	-	479	30	1,230
Other income	1,500	500	5,625	23,805
Gain on settlement of debt (Note 7)	-	-	179,750	2,304
Loss on disposal of property and equipment (Note 4)	-	-	(25,463)	-
Write down of exploration and evaluation properties (Note 5)	<u>(23,416)</u>	<u>(23,081,108)</u>	<u>(27,328)</u>	<u>(26,771,698)</u>
	<u>(21,916)</u>	<u>(23,080,129)</u>	<u>132,614</u>	<u>(26,744,359)</u>
<b>Net loss and comprehensive loss for the period</b>	<u>(94,447)</u>	<u>(23,176,745)</u>	<u>(141,547)</u>	<u>(27,491,320)</u>
<b>Basic and diluted loss per share</b>	<u>(0.00)</u>	<u>(0.95)</u>	<u>(0.00)</u>	<u>(1.12)</u>
<b>Weighted average number of common shares outstanding</b>	<u>36,391,999</u>	<u>24,441,997</u>	<u>33,940,717</u>	<u>24,441,997</u>

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

**CAP-EX IRON ORE LTD.**  
**CONDENSED INTERIM STATEMENTS OF CASH FLOWS**  
**(UNAUDITED – EXPRESSED IN CANADIAN DOLLARS)**

	<b>For the nine months ended May 31,</b>	
	<b>2015</b>	<b>2014</b>
	<b>\$</b>	<b>\$</b>
<b>Cash flows from operating activities</b>		
Loss for the period	(141,547)	(27,491,320)
Items not affecting cash:		
Depreciation	71,348	45,600
Share-based compensation	64,121	168,434
Write down of exploration and evaluation properties	27,328	26,771,698
Loss on disposal of property and equipment	25,463	-
Gain on settlement of debt	(179,750)	-
Changes in non-cash working capital items		
Amounts receivable	14,043	114,318
Prepaid expenses	(1,201)	17,483
Accounts payable and accrued liabilities	(90,853)	236,426
	<u>(211,048)</u>	<u>(137,361)</u>
<b>Cash flows from investing activities</b>		
Proceeds received from property agreement	350,000	-
Exploration and evaluation property expenditures	(70,163)	(650,121)
Proceeds on disposal of property and equipment	54,950	-
	<u>334,787</u>	<u>(650,121)</u>
<b>Cash flows from financing activities</b>		
Repayment of loan	(135,777)	(52,500)
Restricted cash	72,500	-
Proceeds from share issuances	50,000	-
Share issuance costs	(4,201)	-
	<u>(17,478)</u>	<u>(52,500)</u>
<b>Net change in cash</b>	<b>106,261</b>	<b>(839,982)</b>
<b>Cash, beginning of the period</b>	<b>115,297</b>	<b>1,007,824</b>
<b>Cash, end of the period</b>	<b>221,558</b>	<b>167,842</b>
<b>Supplemental cash flow information</b>		
Exploration and evaluation property expenditures included in accounts payable and accrued liabilities	-	263,325
Depreciation capitalized in exploration and evaluation properties	-	52,663
Reclassification of expired warrants from reserves to deficit	741,174	2,869,023
Reclassification of cancelled stock options	17,262	3,162,181
Shares issued in settlement of debt	70,250	-
Shares issued in private placement	422,500	-
Warrants issued in private placement	205,035	-

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

**CAP-EX IRON ORE LTD.**  
**CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY**  
**(UNAUDITED – EXPRESSED IN CANADIAN DOLLARS)**

	Number of Shares Issued	Share Capital	Reserves	Deficit	Total Shareholders' Equity
	#	\$	\$	\$	\$
<b>Balance at August 31, 2013</b>	<b>24,441,999</b>	<b>33,040,827</b>	<b>7,836,127</b>	<b>(11,389,401)</b>	<b>29,487,553</b>
Share-based compensation	-	-	153,316	-	153,316
Warrants expired	-	-	(2,869,023)	2,869,023	-
Stock options cancelled	-	-	(3,162,181)	3,162,181	-
Loss for the period	-	-	-	(27,491,320)	(27,491,320)
<b>Balance at May 31, 2014</b>	<b>24,441,999</b>	<b>33,040,827</b>	<b>1,973,357</b>	<b>(32,849,517)</b>	<b>2,164,667</b>
Share-based compensation	-	-	7,015	-	7,015
Stock options cancelled	-	-	(520,372)	520,372	-
Loss for the period	-	-	-	(1,808,674)	(1,808,674)
<b>Balance at August 31, 2014</b>	<b>24,441,999</b>	<b>33,040,827</b>	<b>1,460,000</b>	<b>(34,137,819)</b>	<b>363,008</b>
Shares issued in private placement	9,450,000	267,465	205,035	-	472,500
Share issuance costs	-	(4,201)	-	-	(4,201)
Shares issued for debt settlement	2,500,000	70,250	-	-	70,250
Warrants expired	-	-	(741,174)	741,174	-
Stock options cancelled	-	-	(17,262)	17,262	-
Share-based compensation	-	-	64,121	-	64,121
Loss for the period	-	-	-	(141,547)	(141,547)
<b>Balance at May 31, 2015</b>	<b>36,391,999</b>	<b>33,374,341</b>	<b>970,720</b>	<b>(33,520,930)</b>	<b>824,131</b>

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

**CAP-EX IRON ORE LTD.**

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2015  
(UNAUDITED – EXPRESSED IN CANADIAN DOLLARS)

---

**1. NATURE AND CONTINUANCE OF OPERATIONS**

Cap-Ex Iron Ore Ltd. (the “Company”) was incorporated under the Canada Business Corporations Act (CBCA) on February 27, 2007 and is listed for trading on the TSX Venture Exchange (“TSX-V”) under the symbol V.CEV. The Company’s business is to acquire, explore and develop interests in iron ore mining projects.

The Company’s registered office is Suite 650 – 1188 West Georgia Street, Vancouver, BC, Canada, V6E 4A2. The Company maintains an executive office at Suite 2000 – 1177 West Hastings Street, Vancouver, BC, Canada, V6E 2K3.

On September 22, 2014, the Company completed a share consolidation on the basis of one new post-consolidation common share for every four pre-consolidation common shares (4:1). All current and comparative references to the number of common shares, weighted average number of common shares, loss per share, stock options and warrants have been restated to give effect to the share consolidation.

The Company’s exploration and evaluation properties are at the exploration and evaluation stage and are without a known body of commercial ore. The business of exploring for minerals and mining involves a high degree of risk. Few properties that are explored are ultimately developed into producing mines. Major expenses may be required to establish ore reserves, to develop metallurgical processes, to acquire construction and operating permits and to construct mining and processing facilities. The amounts shown as exploration and evaluation property costs represented acquisition, holding and deferred exploration costs which have been written down to \$2 as at May 31, 2015 and do not necessarily represent present or future recoverable values. The recoverability of the amounts shown for exploration and evaluation property costs is dependent upon the Company obtaining the necessary financing to complete the exploration and evaluation properties, the discovery of economically recoverable reserves and future profitable operations.

Although the Company has taken steps to verify title to the properties on which it is conducting exploration and in which it has an interest, in accordance with industry standards for the current stage of operations of such properties, these procedures do not guarantee the Company’s title. Property title may be subject to government licensing requirements or regulations, unregistered prior agreements, unregistered claims, aboriginal claims, and non-compliance with regulatory and environmental requirements. The Company’s assets may also be subject to increases in taxes and royalties, renegotiation of contracts, political uncertainty and currency exchange fluctuations and restrictions.

These condensed interim financial statements have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. As at May 31, 2015, the Company had not advanced any of its properties to commercial production and is not able to finance day to day activities through operations. The Company’s continuation as a going concern is dependent upon the successful results from its mineral property exploration activities and its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. The Company may require additional financing for the upcoming fiscal year in order to maintain its operations and exploration activities. These material uncertainties may cast significant doubt on the Company’s ability to continue as a going concern.

## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION**

The following is a summary of significant accounting policies used in the preparation of these condensed interim financial statements.

### **Statement of compliance**

These condensed interim financial statements of the Company have been prepared in accordance with International Accounting Standard 34 (“IAS 34”) “Interim Financial Reporting”, using accounting policies that are consistent and in accordance with the International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) that are in effect at May 31, 2015.

These condensed interim financial statements were reviewed, approved and authorized for issue by the Board of Directors on July 29, 2015.

### **Basis of presentation**

These condensed interim financial statements of the Company have been prepared on an accrual basis and are based on historical costs, modified where applicable. The condensed interim financial statements are presented in Canadian dollars unless otherwise noted.

The accounting policies applied in preparation of these condensed interim financial statements are consistent with those applied and disclosed in the Company’s annual audited financial statements for the year ended August 31, 2014, with the exception of certain amendments to accounting standards issued by the IASB, which were applicable from September 1, 2014. These amendments did not have a significant impact on the Company’s condensed interim financial statements.

The Company’s interim results are not necessarily indicative of its results for a full year.

### **Foreign currency translation**

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than Canadian dollars are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, monetary assets and liabilities denominated in foreign currencies are translated at the period end exchange rate while non-monetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are included in comprehensive loss.

### **Use of estimates**

The preparation of condensed interim financial statements in conformity with IFRS 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 the reported revenues and expenses during the period.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

The most significant accounts that require estimates as the basis for determining the stated amounts include the recoverability of exploration and evaluation properties, valuation of share-based compensation, and recognition of deferred tax amounts.

## **2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)**

### **Use of estimates (continued)**

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

#### Economic recoverability and probability of future economic benefits of exploration and evaluation properties

Management has determined that exploration, evaluation, and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including, geologic and other technical information, a history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, the quality and capacity of existing infrastructure facilities, evaluation of permitting and environmental issues and local support for the project.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

#### Valuation of share-based compensation

The Company uses the Black-Scholes Option Pricing Model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forecasted dividend rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

#### Income taxes

In assessing the probability of realizing income tax assets, management makes estimates related to expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

### **Accounting pronouncements not yet adopted**

A number of new standards, amendments to standards and interpretations applicable to the Company are not yet effective for the nine months ended May 31, 2015 and have not been applied in preparing these condensed interim financial statements. The Company is currently considering the possible effects of the new and revised standards which will be effective to the Company's financial statements for the year ending August 31, 2016 or later:

- IFRS 9 – Financial Instruments: Applies to classification and measurement of financial assets and liabilities as defined in IAS 39. It is tentatively effective for annual periods beginning on or after January 1, 2018 with early adoption permitted. The Company does not expect any effect on the Company's financial statements.

**CAP-EX IRON ORE LTD.**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2015**  
**(UNAUDITED – EXPRESSED IN CANADIAN DOLLARS)**

**3. AMOUNTS RECEIVABLE**

	May 31, 2015	August 31, 2014
	\$	\$
Sales tax receivable	3,157	14,923
Other	1,725	4,002
	<b>4,882</b>	<b>18,925</b>

**4. PROPERTY AND EQUIPMENT**

	Computer hardware/ software \$	Drilling equipment \$	Garage \$	Land \$	Equipment \$	Vehicles \$	Total \$
<b>Cost:</b>							
At August 31, 2013 and August 31, 2014	29,464	487,344	413,140	20,000	24,740	226,750	1,201,438
Disposals	-	-	-	-	-	(90,226)	(90,226)
<b>At May 31, 2015</b>	<b>29,464</b>	<b>487,344</b>	<b>413,140</b>	<b>20,000</b>	<b>24,740</b>	<b>136,524</b>	<b>1,111,212</b>
<b>Depreciation:</b>							
At August 31, 2013	25,615	136,456	10,829	-	9,488	76,637	259,025
Charge for the year	2,117	70,178	20,116	-	3,336	57,389	153,136
At August 31, 2014	27,732	206,634	30,945	-	12,824	134,026	412,161
Disposals	-	-	-	-	-	(52,647)	(52,647)
Charge for the period	715	42,107	14,332	-	1,787	12,407	71,348
<b>At May 31, 2015</b>	<b>28,447</b>	<b>248,741</b>	<b>45,277</b>	<b>-</b>	<b>14,611</b>	<b>93,786</b>	<b>430,862</b>
<b>Net book value:</b>							
At August 31, 2014	1,732	280,710	382,195	20,000	11,916	92,724	789,277
<b>At May 31, 2015</b>	<b>1,017</b>	<b>238,603</b>	<b>367,863</b>	<b>20,000</b>	<b>10,129</b>	<b>42,738</b>	<b>680,350</b>

On May 11, 2015, the Company entered into a promissory letter with an arm's length party (the "Buyer") to sell certain property and equipment for \$200,000 (plus applicable taxes). According to the terms of the letter, the Company and the arm's length party have two months from the date of signing to finalize a notarized sale contract and transfer title to the Buyer.

Subsequent to May 31, 2015, the Company completed the sale of these capital assets and received full proceeds in connection with this transaction (Note 14).

**CAP-EX IRON ORE LTD.**  
NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2015  
(UNAUDITED – EXPRESSED IN CANADIAN DOLLARS)

**5. EXPLORATION AND EVALUATION PROPERTIES**

	Schefferville	Lake Connelly	Total
	\$	\$	\$
Balance, August 31, 2013	28,613,334	1	28,613,335
Property acquisition costs	35,000	-	35,000
<i>Exploration expenditures:</i>			
Camp accommodation	17,714	-	17,714
Consulting	9,883	-	9,883
Data analysis	957	-	957
Drilling	71,969	-	71,969
Equipment	55,579	-	55,579
Geological	14,632	-	14,632
Helicopter and transportation	141	-	141
Legal services	2,045	-	2,045
Sampling	8,698	-	8,698
Recovery of exploration expenditures	(11,160)	-	(11,160)
	205,458	-	205,458
Write down of exploration expenditures	(28,468,792)	-	(28,468,792)
<b>Balance, August 31, 2014</b>	<b>350,000</b>	<b>1</b>	<b>350,001</b>
<i>Exploration expenditures:</i>			
Camp accommodation	5,142	-	5,142
Consulting	13,550	-	13,550
Drilling	1,500	-	1,500
Equipment recovery	(41,584)	-	(41,584)
Geological	41,440	-	41,440
Sampling	7,281	-	7,281
Recovery of exploration expenditures	(350,000)	-	(350,000)
	(322,671)	-	(322,671)
Impairment of exploration and evaluation properties	(27,328)	-	(27,328)
<b>Balance, May 31, 2015</b>	<b>1</b>	<b>1</b>	<b>2</b>

**CAP-EX IRON ORE LTD.**

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2015  
(UNAUDITED – EXPRESSED IN CANADIAN DOLLARS)

---

**5. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)****Schefferville Properties**

In February 2011, the Company entered into an option agreement with Kal Malhi (the “Optionor”) to acquire a 100% interest in the Redmond Properties (part of the “Schefferville Properties”) in the area of Schefferville, Quebec (“Option Agreement”). To date, the Company has made cash and share based payments totaling \$579,117 to the Optionor. The Company has also met the minimum \$1 million work commitment outlined in the Option Agreement. The Company is required to pay another \$500,000 cash or shares at the election of the Optionor prior to the third year anniversary date (\$500,000 divided by the weighted average close trading price for ten trading days prior to the third anniversary date or 555,555 shares, whichever is less) to earn its initial 51% interest in the property.

A finder’s fee agreement related to this agreement calls for payments equal to 5% of the cash and share issuances paid under the Option Agreement. All cash and share portions of the finder’s fee are payable to the finder concurrently with the payments made to the Optionor of the Option Agreement.

Upon completion of these payments, the Company will own a 51% interest in the Redmond Properties. The Company must pay the vendor an additional \$500,000 in cash or common shares prior to the fifth year anniversary of the Option Agreement for the remaining 49% interest in the Redmond Properties. The vendor will retain a 2% net smelter return royalty 50% of which may be purchased for \$1,000,000 in cash prior to the five year anniversary of the Option Agreement.

In January 2014, the Company terminated the Option Agreement with Kal Malhi and the corresponding finder’s fee agreement. As a result, the Company recorded a write down of exploration and evaluation properties of \$3,690,590 for the year ended August 31, 2014.

In March 2011, the Company acquired 100% of the interests in a group of Labrador / Quebec Iron Ore properties, of which a portion is Lac Connelly, from Mandu Resources Ltd. (“Mandu”), Bedford Resources Partners Inc. and 743584 Ontario Inc. (collectively, “BP&N”). In order to earn the interest, the Company paid a \$49,000 non-refundable cash deposit upon execution of the agreement, paid an additional \$226,000 and issued a total of 1,250,000 shares to Mandu upon closing of the agreement. Mandu and BP&N retained a 1.8% royalty on iron ore produced, which is limited to \$1.60 per ton of ore produced.

In April 2011, the Company acquired three additional properties for total acquisition costs of \$50,000 and 53,750 common shares. The vendors have each retained royalty interests between 1.5% and 2% related to the claims of which between 0.5% and 1% per claim group may be repurchased for cash payments of \$1,000,000 per claim group. The repurchase right is available until April 2015 in the case of one claim group and any time prior to the commencement of commercial production in the case of two claim groups.

In April 2011, the Company acquired 100% of two properties that adjoin the Company’s existing property near Schefferville, Quebec. Under the terms of the agreement, the Company paid \$500,000 and issued 125,000 shares to the vendor. The vendor retained a 1% NSR on the properties, which can be reduced to 0.5%, by a payment of \$1,000,000 at any time.

In May 2012, the Company entered in a definitive exploration agreement with Innu Takuaihan Uashat Mak Mani-Utenam (“ITUM”). Pursuant to the terms of the agreement, the Company issued 75,000 common shares to ITUM. In addition, the Company has agreed to make annual payments to ITUM conditional upon the Company completing certain levels of exploration activities on its properties during the previous year. In consideration for the benefits received by ITUM under the exploration agreement, ITUM has given its consent to the Company’s exploration activities on its properties. The 75,000 common shares were issued on June 16, 2012 with an estimated value of \$135,000 based on the market price of the shares. The Company issued 300,000 shares to ITUM (Note 7) to meet its 2013 annual payments under the agreement. The Company did not make its 2014 annual payments and the definitive exploration agreement with ITUM was terminated.

**CAP-EX IRON ORE LTD.**

NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS  
FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2015  
(UNAUDITED – EXPRESSED IN CANADIAN DOLLARS)

---

**5. EXPLORATION AND EVALUATION PROPERTIES (CONTINUED)****Schefferville Properties (continued)**

During the year ended August 31, 2014, the Company further wrote-down the Schefferville Properties by \$24,778,202 based on management's review of these properties. The Company does not have any current exploration plans and accordingly, has written down the Schefferville Properties to \$350,000 which is based on the proceeds received from Tata Steel Minerals Canada Limited ("TSMC").

In September 2014, the Company entered into an agreement with TSMC in respect of roadway access and direct shipping iron ore ("DSO") exploration (the "Exploration Plan") over the Company's Schefferville property located in Western Labrador. Under the agreement, the Company has agreed to assist TSMC in obtaining surface rights for a roadway through the property to connect adjoining properties of TSMC. TSMC shall be solely responsible for all work, costs and expenses required to build the roadway and for continued use of roadway, including maintenance.

Under the terms of the agreement, TSMC has agreed on the following:

- Pay \$350,000 (received) to the Company on execution of the agreement;
- Incur \$450,000 of exploration costs as part of the Exploration Plan by no later than September 30, 2015

TSMC has the right to advise the Company any time on or before September 30, 2015 that it wishes to enter into a joint venture agreement concerning the Schefferville property whereby both parties will negotiate in good faith for a period of 90 days (until December 31, 2015). However, if TSMC does not wish to continue with the Exploration Plan or both parties cannot agree on a joint venture agreement, TSMC will pay \$200,000 to the Company in full satisfaction of its exploration commitment.

As at May 31, 2015, the Company recorded an impairment of the exploration and evaluation properties of \$27,328 resulting in a nominal value of \$1 as the Company does not have current exploration plans.

**Option of Snelgrove Claims**

Effective May 22, 2013, the Company and Vortex Pipes Limited ("Vortex"), an Australian ASX listed company, entered into an option agreement where Vortex is granted the option (the "Option") to acquire up to a 100% interest in Newfoundland and Labrador mineral licences 20274M, 20278M, 20279M, 20280M and 20281M (the "Snelgrove Claims" which are included in the "Schefferville Properties"). Vortex had until June 30, 2014 to exercise the option on the Snelgrove Project and can do so by:

- (i) Issuing to the Company 96,000,000 of its common shares; and
- (ii) Maintaining the Snelgrove Project licences in good standing until June 30, 2014, which is estimated will cost Vortex approximately \$83,043 currently and an additional amount of approximately \$80,000 to June 30, 2014.

In June 2014, the option agreement expired.

**Write Down of Lake Connelly Property**

The Company decided to indefinitely postpone any further exploration on the Lake Connelly property and focus the Company's resources on its core properties in the Schefferville area in 2013. Accordingly, the Lake Connelly property was written down to a nominal \$1.

## **6. LOAN PAYABLE**

On June 12, 2012, the Company entered into a credit facility agreement with its commercial bank to arrange a \$350,000 credit facility to finance the purchase of equipment. The facility will mature on June 27, 2017 and bears interest at the commercial bank's prime rate + 3%. The loan is secured by a general pledge over all the assets owned by the Company. The loan can be repaid at any time at the Company's discretion without penalty. Principal and interest are payable by consecutive monthly principal payment of \$5,833 plus interest based on a 60 month amortization. As at August 31, 2014, the Company classified \$70,000 of the loan as due within one year and the remaining balance of \$65,777 as long term.

On September 24, 2014, the Company fully repaid the outstanding loan amount of \$135,777.

## **7. SHARE CAPITAL**

### **Authorized share capital**

Unlimited common shares without par value.

### **Issued share capital**

#### During the nine months ended May 31, 2015:

On September 22, 2014, the Company completed a share consolidation on the basis of one new post-consolidation common share for every four pre-consolidation common shares (4:1). All current and comparative references to the number of common shares, weighted average number of common shares, loss per share, stock options and warrants have been restated to give effect to the share consolidation.

On October 27, 2014, the Company completed a private placement financing through the issuance of 9,450,000 units at a price of \$0.05 for gross proceeds of \$472,500. Of the proceeds, \$50,000 was received in cash with the remainder offset against amounts owing to the subscribers. Each unit comprises of one common share and one share purchase warrant exercisable for a period of two years at an exercise price of \$0.05 per share. The warrants were valued at \$205,035 estimated using the Black-Scholes pricing model with the following assumptions: estimated life of two years, risk-free rate of 1.00%, volatility of 194%, and nil forecasted dividend yield. The Company recorded share issuance costs of \$4,201 in connection with this private placement.

On October 27, 2014, the Company issued 2,500,000 common shares to settle total outstanding debt of \$250,000. The Company valued the shares issued at \$70,250 and accordingly, recognized a gain on settlement of debt of \$179,750.

## 8. RESERVES

### Stock options

The Company has a stock option plan (“the Plan”) whereby it can grant options to directors, officers, employees, and technical consultants of the Company. The maximum number of shares that may be reserved for issuance under the Plan is limited to 10% of the issued common shares of the Company. Vesting and term of the option is determined by the board of directors in accordance with the Plan and the policies of the TSX-V.

#### During the nine months ended May 31, 2015:

In October 15, 2014, the Company received approval from the TSX-V to amend the exercise prices of certain stock options to \$0.08. As a result of the stock option re-pricing, the Company recognized additional share-based compensation of \$9,504 using the Black-Scholes option pricing model.

On October 20, 2014, the Company granted 1,280,000 five-year stock purchase options exercisable at \$0.05 per option valued at \$40,587 estimated using the Black-Scholes pricing model with the following assumptions: estimated life of five years, risk free interest rate of 1.40%, volatility of 156%, and nil forecasted dividend yield. All options vested immediately on grant.

The Company recognized \$64,121 of share-based compensation in connection with the vesting of options using the Black-Scholes option pricing model. The Company also cancelled 37,500 stock options with an expiry date of June 5, 2018, exercise price of \$0.50 and reclassified \$17,262 from reserves to deficit.

#### During the year ended August 31, 2014:

The Company recognized \$175,449 of share-based compensation in connection with the vesting of options using the Black-Scholes option pricing model. The Company also cancelled 1,208,750 stock options with expiry dates ranging between October 18, 2015 and February 7, 2017, with exercise prices ranging from \$1.00 to \$4.96, and reclassified \$3,682,553 from reserves to deficit.

A summary of stock option activities is as follows:

	Number of options	Weighted average exercise price
		\$
Balance, August 31, 2013	2,406,250	1.86
Cancelled	<u>(1,208,750)</u>	3.61
<b>Balance, August 31, 2014</b>	<b>1,197,500</b>	<b>0.09</b>
Granted	1,280,000	0.05
Cancelled	<u>(37,500)</u>	0.50
<b>Balance, May 31, 2015</b>	<b><u>2,440,000</u></b>	<b>0.06</b>

**CAP-EX IRON ORE LTD.**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2015**  
**(UNAUDITED – EXPRESSED IN CANADIAN DOLLARS)**

---

**8. RESERVES (CONTINUED)**

**Stock options (continued)**

A summary of the stock options outstanding and exercisable at May 31, 2015 is as follows:

<b>Exercise Price</b>	<b>Number Outstanding and Exercisable</b>	<b>Expiry Date</b>
\$		
0.08	200,000	October 18, 2015
0.08	145,000	February 6, 2018
0.08	37,500	February 28, 2018
0.08	777,500	June 5, 2018
0.05	1,280,000	October 20, 2019
	<u>2,440,000</u>	

**Warrants**

A summary of share purchase warrant activities is as follows:

	<b>Number of warrants</b>	<b>Weighted average exercise price</b>
		\$
Balance, August 31, 2013	8,772,141	1.87
Expired	<u>(3,003,309)</u>	3.80
Balance, August 31, 2014	<b>5,768,832</b>	<b>0.87</b>
Issued	9,450,000	0.05
Expired	<u>(5,768,832)</u>	0.87
<b>Balance, May 31, 2015</b>	<b><u>9,450,000</u></b>	<b>0.05</b>

A summary of the share purchase warrants outstanding at May 31, 2015 is as follows:

<b>Exercise Price</b>	<b>Number Outstanding</b>	<b>Expiry Date</b>
\$		
0.05	<u>9,450,000</u>	October 27, 2016

**CAP-EX IRON ORE LTD.**  
**NOTES TO CONDENSED INTERIM FINANCIAL STATEMENTS**  
**FOR THE THREE AND NINE MONTHS ENDED MAY 31, 2015**  
**(UNAUDITED – EXPRESSED IN CANADIAN DOLLARS)**

---

**9. RELATED PARTY TRANSACTIONS**

In accordance with IAS 24, key management personnel are those persons having authority and responsibility for planning, directing and controlling the activities of the Company directly or indirectly, including directors (executive and non-executive) of the Company.

In October 2014, the Company issued 2,500,000 common shares valued at \$70,250 to settle total outstanding debt of \$250,000 owing to a company related by way of common directors.

During the nine months ended May 31, 2015, the Company paid or incurred consulting fees of \$4,500 (May 31, 2014 - \$nil) to a director of the Company.

As at May 31, 2015, the Company has \$21,927 (August 31, 2014 - \$747,121) included in accounts payable and accrued liabilities due to officers, directors and companies controlled by officers and directors.

Summary of key management personnel compensation:

	<b>For the nine months ended May 31,</b>	
	<b>2015</b>	<b>2014</b>
	\$	\$
Consulting fees	4,500	280,848
Share-based compensation	32,875	35,637
	<b>37,375</b>	<b>316,485</b>

In addition, the following amounts were incurred with respect to officers, directors and companies controlled by officers and directors:

	<b>For the nine months ended May 31,</b>	
	<b>2015</b>	<b>2014</b>
	\$	\$
Exploration and evaluation property expenditures	21,800	52,650
Rent	42,000	65,500
	<b>63,800</b>	<b>118,150</b>

## **10. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT**

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

- Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;
- Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and
- Level 3 – Inputs that are not based on observable market data.

The Company's financial instruments consist of cash, restricted cash, amounts receivable, accounts payable and accrued liabilities and loans. The fair value of these financial instruments, other than cash and restricted cash, approximates their carrying values due to the short-term nature of these instruments. Cash and restricted cash are measured at fair value using level 1 inputs.

The Company is exposed to a variety of financial risks by virtue of its activities including currency, credit, interest rate, liquidity and commodity price risk.

a) **Currency risk**

The Company is exposed to currency risk by incurring certain expenditures in currencies other than the Canadian dollar. The Company has determined that there is very limited currency risk at this time.

b) **Credit risk**

Credit risk is risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its contractual obligations. The Company's cash is held in large Canadian financial institutions. Financial instruments included in accounts receivable consists of sales taxes due from the Government of Canada. The Company's financial instruments are not exposed to significant credit risk.

c) **Interest rate risk**

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to limited interest rate risk as it only holds cash.

d) **Liquidity risk**

Liquidity risk is the risk that the Company will not be able to meet its obligations as they come due. The Company's ability to continue as a going concern is dependent on management's ability to raise the required capital through future equity or debt issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning, and approval of significant expenditures and commitments.

e) **Commodity price risk**

The ability of the Company to explore and evaluate its exploration and evaluation properties and the future profitability of the Company are directly related to the price of iron. The Company monitors iron prices to determine the appropriate course of action to be taken.

## **11. CAPITAL MANAGEMENT**

The Company considers its capital structure to include the components of shareholders' equity. Management's objective is to ensure that there is sufficient capital to minimize liquidity risk and to continue as a going concern. As the Company's properties are in the exploration and evaluation stage, the Company is currently unable to self-finance its operations. Although the Company has been successful in the past in obtaining financing through the sale of equity securities, there can be no assurance that the Company will be able to obtain adequate financing in the future, or that the terms of such financings will be favourable.

The Company's share capital is not subject to any external restrictions. The Company did not change its approach to capital management during the nine months ended May 31, 2015.

## **12. COMMITMENTS**

### **Management Contracts**

In June and July 2013, the Company signed five separate consulting agreements with certain officers and directors of the Company to provide management consulting and exploration services to the Company for a period of 5 years. The agreements require total combined payments of \$69,500 per month. Included in each agreement is a provision for a two year payout in the event of termination without cause and a two year payout in the event of a change in control. Beginning in January 2014, the Company, and the officers and directors of the Company agreed to temporarily suspend the monthly payments for an indefinite period. In May 2014, an officer resigned from her position, and as such the related consulting agreement was terminated. The termination of the consulting agreement reduced the monthly required payment by \$9,500.

## **13. SEGMENTED INFORMATION**

The Company has one geographic segment, being Canada, and one operating segment, being the acquisition and exploration of exploration and evaluation properties.

## **14. SUBSEQUENT EVENTS**

In June 2015, the Company cancelled 610,000 stock options in connection with the resignation of various consultants.

In July 2015, the Company completed the sale of certain capital assets to an arm's length party and received proceeds of \$200,000 in connection with this transaction (Note 4).