Thelon Capital Ltd.

(formerly Thelon Ventures Ltd.)

Financial Statements

September 30, 2011

Thelon Capital Ltd.
(formerly Thelon Ventures Ltd.)

Financial Statements

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Independent Auditor's Report

To the Shareholders of
Thelon Capital Ltd. (formerly Thelon Ventures Ltd.)

We have audited the accompanying financial statements of Thelon Capital Ltd. (formerly Thelon Ventures Ltd.), which comprise the balance sheets as at September 30, 2011 and September 30, 2010, and the statements of loss and comprehensive loss, deficit and cash flows 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 Canadian generally accepted accounting principles, 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.

Auditor's Responsibility
Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits 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 auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion
In our opinion, the financial statements present fairly, in all material respects, the financial position of Thelon Capital Ltd. (formerly Thelon Ventures Ltd.) as at September 30, 2011 and September 30, 2010 and the results of its operations and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter
Without modifying our opinion, we draw attention to Note 1 to the financial statements which describes the material uncertainty that may cast significant doubt about the ability of Thelon Capital Ltd. (formerly Thelon Ventures Ltd.) to continue as a going concern.

"MacKay LLP"

Chartered Accountants
Vancouver, British Columbia
January 30, 2012

Thelon Capital Ltd.
(formerly Thelon Ventures Ltd.)

Balance Sheets

As at September 30,	**2011**	2010
Assets		
Current		
Cash	**$ 428,550**	$ 668
Amounts receivable	**1,623**	-
HST receivable	**15,831**	17,883
Due from related parties (note 8)	**59,339**	-
Prepaid expenses	**37,414**	5,514
	542,757	24,065
Equipment (note 3)	**2,068**	2,862
Mineral properties acquisition costs (note 4)	**5,777,664**	240,000
Deferred exploration expenditures (note 4)	**-**	249,822
Deposit on option to purchase (note 5)	**1,687,294**	-
	$ 8,009,783	$ 516,749
Liabilities		
Current		
Accounts payable and accrued liabilities	**$ 313,914**	$ 99,610
Promissory note payable	**-**	34,401
Due to related party (note 8)	**38,318**	35,411
	352,232	169,422
Shareholders' Equity		
Share capital (note 6)	**21,642,026**	12,819,147
Share subscriptions receivable (note 6)	**(60,409)**	-
Warrants (note 6)	**442,176**	-
Share subscriptions received (note 6)	**-**	15,000
Contributed surplus (note 6)	**2,831,275**	2,329,347
Deficit	**(17,197,517)**	(14,816,167)
	7,657,551	347,327
	$ 8,009,783	$ 516,749

Nature and continuance of operations (note 1)
Commitments (notes 4 and 5)
Subsequent events (note 12)

Approved on behalf of the Board of Directors:

"Jason Walsh" Director

"Geoff Watson" Director

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

Thelon Capital Ltd.
(formerly Thelon Ventures Ltd.)

Statements of Loss and Comprehensive Loss

For the year ended September 30,		2011		2010
Administrative expenses				
Advertising and promotion	$	226,518	$	95,733
Amortization		794		1,112
Bank charges and interest		11,169		9,124
Consulting (note 8)		396,951		169,328
Director fees (note 8)		23,000		12,000
Legal and accounting		99,119		41,314
Office and administration (note 8)		82,567		123,059
Shareholder relations		236,710		45,427
Stock-based compensation (note 6)		586,602		166,534
Telephone		15,141		19,946
Transfer agent and exchange fees		53,202		41,020
Travel		120,361		24,755
Loss before other items		1,852,134		749,352
Other items				
Foreign exchange loss		17,370		-
Other income		(476)		-
Recovery of mineral properties		(10,833)		-
Write down of mineral properties (note 4)		523,155		3,055,482
		529,216		3,055,482
Net and comprehensive loss for the year	$	2,381,350	$	3,804,834
Basic and diluted loss per share	$	0.07	$	0.43
Weighted average number of shares outstanding		32,438,152		8,888,631

Thelon Capital Ltd.
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Statements of Deficit

For the year ended September 30,		**2011**		2010
Deficit, beginning of year	**$**	**(14,816,167)**	$	(11,011,333)
Net loss for the year		**(2,381,350)**		(3,804,834)
Deficit, end of year	**$**	**(17,197,517)**	$	(14,816,167)

Statements of Property Acquisition Costs and Deferred Exploration Expenditures

For the year ended September 30, 2011

	Opening	Additions	Write-down/ Disposals	Total
Acquisition costs				
Canada				
Athabasca Basin (note 4(b))	$ 240,000	$ -	$ (240,000)	$ -
United States				
Jellico Project (note 4(d))	-	5,777,664	-	5,777,664
Total acquisition costs	240,000	5,777,664	(240,000)	5,777,664
Deferred exploration expenditures				
Canada				
Athabasca Basin (note 4(b))	249,822	-	(249,822)	-
United States				
Jellico Project (note 4(d))	-	-	-	-
Total deferred exploration expenditures	249,822	-	(249,822)	-
	$ 489,822	**$ 5,777,664**	**$ (489,822)**	**$ 5,777,664**

Thelon Capital Ltd.
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Statements of Property Acquisition Costs and Deferred Exploration Expenditures

For the year ended September 30, 2010

	Opening	Additions	Write-down/ Disposals	Total
Acquisition costs				
Canada				
Northwest Territories (note 4(a))	$ 1,678,300	$ -	$ (1,678,300)	$ -
Saskatchewan				
Athabasca Basin (note 4(b))	240,000	-	-	240,000
	1,918,300	-	(1,678,300)	240,000
United States				
Utah				
Four Corners (note 4(c))	624,984	-	(624,984)	-
Total acquisition costs	2,543,284	-	(2,303,284)	240,000
Deferred exploration expenditures				
Canada				
Northwest Territories (note 4(a))	334,335	-	(334,335)	-
Less: cost recoveries	(498,660)	-	498,660	-
Saskatchewan				
Athabasca Basin (note 4(b))	249,822	-	-	249,822
	85,497	-	164,325	249,822
United States				
Utah				
Four Corners (note 4(c))	916,523	-	(916,523)	-
Total deferred exploration expenditures	1,002,020	-	(752,198)	249,822
	$ 3,545,304	**$ -**	**$ (3,055,482)**	**$ 489,822**

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

Thelon Capital Ltd.
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Statements of Cash Flows

For the year ended September 30,		**2011**		2010
Cash provided by (used for)				
Operating activities				
Loss for the year	**$**	**(2,381,350)**	$	(3,804,834)
Add items not affecting cash:				
Accrued interest		**-**		1,401
Amortization		**794**		1,112
Foreign exchange loss		**17,370**		-
Interest paid by shares		**6,600**		-
Stock based compensation		**586,602**		166,534
Write-down of abandoned mineral properties		**523,155**		3,055,482
		(1,246,829)		(580,305)
Net change in non-cash working capital		**13,822**		127,412
		(1,233,007)		(452,893)
Financing activities				
Advances from related parties		**-**		21,843
Issuance (repayment) of promissory notes payable		**(34,401)**		33,000
Issuance of units for cash		**5,865,686**		433,750
Unit issue costs		**(378,647)**		(22,380)
Share subscriptions received		**(15,000)**		(22,549)
		5,437,638		443,664
Investing activities				
Acquisition of mineral properties		**(2,015,653)**		-
Advances to related parties		**(56,432)**		-
Deposit on option to purchase		**(1,687,294)**		-
		(3,759,379)		-
Effect of foreign exchange translation on cash		**(17,370)**		-
Net increase (decrease) in cash		**427,882**		(9,229)
Cash, beginning of year		**668**		9,897
Cash, end of year	**$**	**428,550**	$	668
Supplemental cash flow disclosure (note 7)				
Interest received (paid)	**$**	**(803)**	$	-
Income taxes paid	**$**	**-**	$	-

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

1. Nature and Continuance of Operations

Pursuant to a resolution passed by the shareholders, the common shares of Thelon Capital Ltd. commenced trading on the TSX Venture Exchange on February 4, 2010 and the common shares of Thelon Ventures Ltd. were delisted. The Company also consolidated its share capital on a ten old for one new basis. The Company is incorporated under the Company Act of British Columbia and its principal activity is the exploration of mineral properties.

The financial statements have been prepared in accordance with Canadian generally accepted accounting principles on a going concern basis, which presume the realization of assets and discharge of liabilities in the normal course of business for the foreseeable future. The Company's ability to continue as a going concern is dependent upon achieving profitable operations and upon obtaining additional financing. Management is aware that material uncertainties exist related to current economic conditions which could adversely affect the Company's ability to continue to finance its activities. The Company intends to continue pursuing additional sources of financing through equity offerings to finance its operations and exploration activities. While the Company has been successful in raising funds in the past, it is uncertain whether it will be able to raise sufficient funds in the future. If the Company is unable to secure additional financing, repay liabilities as they come due, negotiate suitable joint venture agreements and/or continue as a going concern, then material adjustments would be required to the carrying value of assets and liabilities, and the balance sheet classifications used. Since the outcome of these matters cannot be predicted at this time, these financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

The recoverability of amounts shown as mineral properties and deferred exploration costs is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete their development, and future profitable production or disposition thereof.

Although the Company has taken steps to verify title to mineral properties in which it has an interest, in accordance with industry norms for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

2. Significant Accounting Policies

a) Mineral properties and related deferred exploration expenditures

Mineral properties consist of exploration and mining concessions, options, and contracts. Acquisition and leasehold costs and exploration costs are capitalized and deferred until such time as the property is put into production or the properties are disposed of either through sale or abandonment. If put into production, the costs of acquisition and exploration will be written off over the life of the property, based on estimated economic reserves. Proceeds received from the sale of any interest in a property will first be credited against the carrying value of the property, with any excess included in operations for the period. If a property is abandoned, the property and deferred exploration costs will be written off to operations.

All deferred expenditures are reviewed by management, on a property by property basis, to consider whether there are any conditions that may indicate an impairment in value. When the carrying value exceeds the net recoverable amount as estimated by management, or the Company's ability to sell the property for an amount exceeding the deferred cost, a provision is made for the impairment in value. Recorded costs of mineral properties and deferred exploration expenditures are not intended to reflect present or future values of mineral properties.

2. Significant Accounting Policies (continued)

b) Asset retirement obligation

The Company has adopted the standard for 'asset retirement obligations' as set out in the CICA Handbook section 3110. The standard requires the recognition and measurement of liabilities related to the legal obligation to abandon and reclaim long lived assets upon acquisition, construction, development and/or normal use of the asset. The initial liability is measured at fair value and subsequently adjusted for the accretion of discount and changes in the fair value. The asset retirement cost is capitalized as part of property and equipment and depleted into earnings over time.

c) Loss per share

Basic loss per share is calculated by dividing the loss for the year by the weighted average number of shares outstanding.

The Company uses the treasury stock method of calculating fully diluted loss per share amounts, whereby any proceeds from the exercise of stock options or other dilutive instruments are assumed to be used to purchase common shares at the average market price during the period. The assumed conversion of outstanding common share options and warrants has an anti-dilutive impact for the reported periods thus fully diluted loss per share is the same as basic loss per share.

d) Equipment

Equipment is recorded at historical cost. The declining-balance method is used to amortize assets over their estimated useful lives at the following annual rates:

Furniture and fixtures	20%
Computer equipment	30%

In the year of acquisition, only one-half of normal rates are used.

e) Financial instruments

All financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity investments, loans and receivables, available-for-sale assets or other financial liabilities. All financial instruments, including derivatives, are included on the balance sheet and are measured at fair market value upon inception with the exception of certain related party transactions. Subsequent measurement and recognition of change in the fair value of financial instruments depends on their initial classification. Held-for-trading financial instruments are measured at fair value and all gains and losses are included in operations in the period in which they arise. Available-for-sale financial assets are measured at fair value with revaluation gains and losses included in other comprehensive income until the asset is removed from the balance sheet or other than temporarily impaired. Loans and receivables, held-to-maturity investments and other financial liabilities are measured at amortized cost using the effective interest method. Gains and losses upon inception, de-recognition, impairment write-downs and foreign exchange translation adjustments are recognized immediately. Transaction costs related to financial instruments will be expensed in the period incurred.

The Company has designated its cash as held-for-trading, which is measured at fair value. Amounts receivable and due from related parties are classified as loans and receivables, which are measured at amortized cost. Accounts payable and accrued liabilities, promissory note payable, and amounts due to related parties are classified as other financial liabilities, which are measured at amortized cost.

2. Significant Accounting Policies (continued)

f) Estimates

The preparation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates. By their nature, the investment in mineral properties and deferred costs, asset retirement obligations and future income tax valuation allowances are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be significant.

g) Income taxes

Income taxes are accounted for using the future income tax method. Under this method income taxes are recognized for the estimated income taxes payable for the current year and future income taxes are recognized for temporary differences between the tax and accounting bases of assets and liabilities and for the benefit of losses available to be carried forward for tax purposes that are more likely than not to be realized. Future income tax assets and liabilities are measured using tax rates expected to apply in the years in which the temporary differences are expected to be recovered or settled.

h) Foreign currency translation

Monetary assets and liabilities are translated at year-end exchange rates; other assets and liabilities have been translated at the rates prevailing at the date of transaction. Revenue and expense items, except for amortization, are translated at the average rate of exchange for the year. Amortization is converted using the rates prevailing at the dates of acquisition. Gains and losses from foreign currency translation are included in the statements of operations.

i) Joint venture accounting

Certain of the Company's mineral property exploration activities are conducted with others, and accordingly, the accounts reflect only the Company's proportionate interest in such activities.

j) Share issue costs

Commissions paid to underwriters on the issue of the Company's shares are charged directly to share capital.

k) Stock based compensation plan

The Company accounts for stock options granted to directors, officers, employees, and non-employees at fair value. The fair value of the options at the date of the grant is determined using the Black-Scholes option pricing model and stock based compensation is accrued and charged to operations, with an offsetting credit to contributed surplus, on a straight-line basis over the vesting periods. The fair value of stock options granted to non-employees is re-measured at the earlier of each financial reporting or vesting date, and any adjustment is charged or credited to operations upon re-measurement. If and when the stock options are exercised, the applicable amounts of contributed surplus are transferred to share capital. The Company has not incorporated an estimated forfeiture rate for stock options that will not vest; rather the Company accounts for actual forfeitures as they occur.

2. Significant Accounting Policies (continued)

l) Non-monetary consideration

In situations where share capital is issued, or received, as non-monetary consideration and the fair value of the asset received, or given up is not readily determinable, the fair market value (as defined) of the shares is used to record the transaction. The fair market value of the shares issued, or received, is based on the trading price of those shares on the appropriate Exchange on the date of the decision to issue shares as determined by the Board of Directors.

m) Flow-through shares

All flow-through shares issued by the Company are accounted for in accordance with EIC 146. The Abstract recommends that upon renunciation to the shareholders, the Company will reduce share capital and record a temporary future income tax liability for the amount of the tax deduction renounced to shareholders. In instances where the Company has sufficient deductible temporary differences available to offset the renounced tax deductions, the realization of the deductible temporary differences will be credited to income in the period of renunciation.

n) Impairment of long-lived assets

In March 2009, the Emerging Issues Committee ("EIC") issued EIC-174 "Mining Exploration Costs", which provides guidance on capitalization of exploration costs related to mineral properties. It also provides guidance for development and exploration stage entities that cannot estimate future cash flows from its properties in assessing whether impairment in such properties is required. EIC-174 also provides additional discussion on recognition for long lived assets.

o) Valuation of warrants

The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component.

The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants.

2. Significant Accounting Policies (continued)

p) Recent accounting pronouncements

International Financial Reporting Standards ("IFRS")

In 2006, the Canadian Accounting Standards Board ("AcSB") published a new strategic plan that will significantly affect financial reporting requirements for Canadian companies. The AcSB strategic plan outlines the convergence of Canadian GAAP with IFRS over an expected five year transitional period. In February 2008, the AcSB announced that 2011 is the changeover date for publicly-listed companies to use IFRS, replacing Canada's own GAAP. The date is for interim and annual financial statements relating to fiscal years beginning on or after January 1, 2011. Effective October 1, 2011, the Company will be required to restate for comparative purposes amounts previously reported to IFRS for the year ending September 30, 2011. The Company will prepare its first set of financial statements under IFRS for the first quarter ending December 31, 2011. The Company is currently evaluating the impact of the conversion on the Company's financial statements and is considering accounting policy choices available under IFRS.

3. Equipment

	Cost	Accumulated amortization	2011 Net book value
Furniture and fixtures	$ 9,068	$ 8,553	$ 515
Computer equipment	22,357	20,804	1,553
	$ 31,425	$ 29,357	$ 2,068

	Cost	Accumulated amortization	2010 Net book value
Furniture and fixtures	$ 9,068	$ 8,425	$ 643
Computer equipment	22,357	20,138	2,219
	$ 31,425	$ 28,563	**$** 2,862

4. Mineral Properties

a) Northwest Territories

During the year ended September 30, 2004, the Company signed a binding letter of intent with Peregrine Diamonds Ltd. ("Peregrine"), whereby Peregrine can earn up to a 65% interest in all of the Company's mineral properties located in the Northwest Territories by issuing 300,000 (received) treasury shares to the Company in stages and spending $4.1 million ($100,000 reimbursed to the Company) in a combination of exploration and underlying land payments over a period of five years.

During the year ended September 30, 2008, Peregrine earned its 65% interest in the Company's mineral properties in the Northwest Territories.

During the year ended September 30, 2010, management decided not to continue with these projects and accordingly wrote off the accumulated costs.

4. Mineral Properties (continued)

a) Northwest Territories (continued)

i) Lac de Gras Property

By agreement dated July 12, 2002, the Company entered into an option agreement to acquire a 100% interest in approximately 48,601 acres located in Northwest Territories. Upon commencement of commercial production the optionor will be entitled to a net smelter return royalty of 4% on all minerals, and a gross overriding royalty of 4% on the average appraised value (as defined) of diamonds. Up to 50% of each royalty may be purchased from the optionor in increments of 0.1%, at a cost of $200,000 per increment, for a total cost of $4,000,000 for each royalty.

Consideration is $25,000 on signing and five payments, at six month intervals commencing on May 29, 2003, of $40,000 cash and 200,000 common shares. Total consideration is cash of $225,000 (paid) and 1,000,000 (issued) common shares.

ii) Oki Property

By agreement dated July 12, 2002, the Company entered into an option agreement to acquire a 100% interest in approximately 4,029 acres located in the Northwest Territories. Upon commencement of commercial production the optionor will be entitled to a net smelter return royalty of 4% on all minerals, and a gross overriding royalty of 4% on the average appraised value (as defined) of diamonds. Up to 50% of each royalty may be purchased from the optionor in increments of 0.1%, at a cost of $200,000 per increment, for a total cost of $4,000,000 for each royalty.

Consideration is $27,500 on signing (paid) and five payments, at six month intervals commencing on approval date, of $20,000 cash and 100,000 common shares. Total consideration is cash of $127,500 (paid) and 500,000 common shares (issued).

iii) Thonokied Lake Property

By agreement dated July 12, 2002, the Company entered into an option agreement to acquire a 100% interest in approximately 2,737 acres located in the Northwest Territories. Upon commencement of commercial production the optionor will be entitled to a net smelter return royalty of 4% on all minerals, and a gross overriding royalty of 4% on the average appraised value (as defined) of diamonds. Up to 50% of each royalty may be purchased from the optionor in increments of 0.1%, at a cost of $200,000 per increment, for a total cost of $4,000,000 for each royalty.

Consideration is $15,000 on signing (paid) and five payments, at six month intervals commencing on approval date, of $20,000 cash and 100,000 common shares. Total consideration is cash of $115,000 (paid) and 500,000 common shares (issued).

4. Mineral Properties (continued)

a) Northwest Territories (continued)

iv) Afridi Lake Property

By agreement dated November 15, 2002, and amended September 8, 2003, the Company entered into an option agreement to purchase a 100% interest in the Afridi Lake property, in the Northwest Territories, totaling 12,900 acres. Consideration for the option is issuance of 1,000,000 common shares (issued) of the Company, and payment of $72,000 ($42,000 paid) cash in staged tranches over four years. The vendor will retain a gross overriding royalty of 4% of which 2% may be purchased by the Company for $2,000,000.

b) Athabasca Basin Property

By agreement dated March 9, 2005, the Company entered into an option agreement to acquire a 100% interest (subject to a 3% smelter royalty) in three mineral prospecting permits totaling approximately 120,000 hectares, located in the Athabasca Basin, Saskatchewan.

Consideration is cash of $100,000 (paid) and 1,000,000 common shares (issued).

By agreement dated August 9, 2006, the Company entered into an option agreement with Triex Minerals Corporation ("Triex"), in which Triex can acquire up to an 80% interest in the Athabasca Basin Properties located in northern Saskatchewan. Triex earned an initial 51% interest in the Property at which time a Joint Venture was formed, by incurring $250,000 in expenditures on the property before December 1, 2006, of which $90,000 may be paid in the form of direct payments to the Company. During the year ended September 30, 2007, Triex paid $80,385 in direct payments to the company and incurred the required amount of expenditures on the property in order to satisfy the First Option.

Triex can earn an additional 9% interest by incurring $1,500,000 before September 1, 2008 (completed), an additional 10% interest by incurring $1,200,000 before April 30, 2010 (completed), and an additional 10% interest by incurring $3,100,000 before April 30, 2013 (completed).

Thelon and Triex formed a 20%-80% joint venture. The Company's investment in the Joint Venture was recorded at the carrying value of the Athabasca Basin Property.

During the year ended September 30, 2011, management decided not to continue with this project and accordingly wrote off the accumulated costs.

c) Four Corners Property

On April 20, 2007, the Company entered into Letter of Intent with International Ranger Corp. (INRG), which has an officer that serves as a Director of the Company, granting the Company the right to acquire up to a 65% interest in the Four Corners Property, Emery County, Utah.

On October 18, 2007, the Company entered into an option agreement with INRG (superseding the LOI entered into April 20, 2007 with INRG), granting the Company the right to acquire up to a 75% interest in the Four Corners Property, Emery County, Utah for consideration of cash US$650,000 for staking and BLM fees (paid) and issuance of 333,333 common shares (issued) by the Company upon approval of the agreement.

4. Mineral Properties (continued)

c) Four Corners Property (continued)

The agreement was amended on August 26, 2008, to include the issuance of 333,333 shares of the Company to INRG at the deemed price of $0.10 per share on each of the one, two and three year anniversaries after the date of approval of the agreement (666,667 issued in 2009).

The Company is also required to spend US$850,000 on work on the property over 3 years (completed). During the term of the agreement, the Company is required to reimburse INRG for 100% of all payments made under the Head Agreement dated May 1, 2007, including staking costs and filing costs for mining claims.

During the year ended September 30, 2010, management decided not to continue with the project and accordingly wrote off the accumulated costs.

d) Jellico Project

On May 27, 2010, the Company entered into a Letter of Agreement to acquire 100% of the Jellico Coal Property which consists of approximately 6,000 acres of coal mineral and surface rights in Campbell and Clairborne counties in the State of Tennessee.

The Company entered into a Share Purchase Agreement on December 14, 2010, amended on March 16, 2011 and August 8, 2011, to purchase 100% of the issued and outstanding shares of Clear Fork Mining Company who owns 100% of the Jellico Coal property. The purchase price is:

- 7,000,000 common shares (issued);
- US$1,000,000 (paid) on signing;
- US$3,000,000 (US$2,696,374 paid) due December 15, 2011;
- take over debt obligations of the vendor of approximately US$4,800,000 effective December 15, 2011; and
- issue a promissory note to the vendor for US$8,485,000 due in 10 years bearing interest at a rate of 6% per annum, interest paid monthly, with an annual payment starting on or before December 31, 2013 of 10% of the principal upon closing.

The Company also agrees to pay a gross overriding production royalty based on selling prices as follows:

i. up to US$80/ton, a royalty of 8% of the selling price;
ii. more than US$80/ton and up to US$90/ton, a royalty of 9% of the selling price;
iii. more than US$90/ton and up to US$100/ton, a royalty of 10% of the selling price;
iv. more than US$100/ton and up to US$110/ton, a royalty of 12% of the selling price; and
v. more than US$110/ton, a royalty of 14% of the selling price.

A bonus of $50,000 was paid to a company controlled by a director on this transaction.

The Company may pay US$500,000, which will be considered as part of the original purchase price, to extend the December 15, 2011 closing date to March 1, 2012.

This transaction is subject to finder's fees in accordance with TSX Venture Exchange policy and subject to TSX Venture Exchange approval.

5. Option to Purchase

On February 22, 2011, the Company entered into a Letter of Intent ("LOI") to purchase a 100% interest in a private Tennessee mining company ("Privateco") for US$35,000,000 plus US$7,000,000 in surety bonds. The Company must pay a non-refundable deposit of US$1,000,000 (paid) within 14 days from the date of signing, with US$41,000,000 due within 120 days (June 20, 2011). The Company may get a 60 day extension by paying an additional US$500,000 non-refundable deposit (paid), prior to the expiration of the 120 day period. The LOI was amended to reflect the balance due 60 days from June 20, 2011, or on August 19, 2011.

The LOI was amended to reflect the purchase price release dates. The total purchase price remains at US$35,000,000 plus US$7,000,000 in surety bonds. A non-refundable deposit of US$1,500,000 has been paid, a further non-refundable deposit of US$500,000 is due on February 15, 2012 to extend the closing date to April 15, 2012, US$23,000,000 due on closing, the vendor to invest $2,400,000 by way of a private placement in the Company, US$1,000,000 to be paid on the first, second, and third anniversary date of the closing, and US$7,000,000 to be paid over three years based on production along with a production bonus of US$2,400,000 over three years paid to the vendor.

This transaction is subject to finder's fees in accordance with TSX Venture Exchange policy and subject to TSX Venture Exchange approval.

6. Share Capital

a) Authorized:

Unlimited number of common shares without par value

b) Issued:

Year ended September 30,	2011		2010	
	Shares	Amount	Shares	Amount
Balance, beginning of year	10,715,973	$ 12,819,147	6,614,691	$ 12,325,311
Issued for property (note 4(d))	7,033,333	2,168,333	-	-
Issued for cash				
Private placements	17,246,220	5,550,515	3,351,590	433,750
Exercise of warrants	6,516,948	1,473,698	-	-
Exercise of agent warrants	293,791	73,448	-	-
Exercise of stock options	557,500	116,750	-	-
Reallocation from warrants	-	51,355	-	-
Reallocation from contributed surplus	-	84,674	-	-
Issued for debt	14,666	6,600	749,692	82,466
Share issue costs	-	(702,494)	-	(22,380)
Balance, end of year	42,378,431	$ 21,642,026	10,715,973	$ 12,819,147

6. Share Capital (continued)

b) Issued: (continued)

Pursuant to a resolution passed by the shareholders, the common shares of Thelon Capital Ltd. commenced trading on the TSX Venture Exchange on February 4, 2010 and the common shares of Thelon Ventures Ltd. were delisted. The Company also consolidated its share capital on a ten old for one new basis. These financial statements reflect this change retrospectively.

c) Private placements

(i) On October 29, 2009, the Company closed a non-brokered private placement of 342,500 units at $0.30 per unit for net proceeds of $99,620. Each unit consisted of one share and one share purchase warrant exercisable into one common share for a period of two years at $1.00. On October 21, 2010, these warrants were re-priced to $0.25. Finders' fees totaling $3,130 were paid in connection with this private placement.

(ii) On March 19, 2010, the Company issued 749,692 units at $0.11 per unit in lieu of $82,466 of debt. Each unit consisted of one share and one share purchase warrant exercisable into one common share for a period of two years at $0.20 per share during the first year and $0.30 per share during the second year.

(iii) On March 25, 2010, the Company closed a non-brokered private placement of 3,009,090 units at $0.11 per unit for net proceeds of $311,750. Each unit consisted of one share and one share purchase warrant exercisable into one common share for a period of two years at $0.20 per share during the first year and $0.30 per share during the second year. Finders' fees totaling $19,250 were paid in connection with this private placement.

(iv) On October 20, 2010, the Company closed a non-brokered private placement of 6,661,998 units at $0.15 per unit for gross proceeds of $999,300. Each unit consisted of one share and one purchase warrant exercisable into one common share at $0.25 during the first year and $0.35 during the second year. The Company also issued 581,666 agent warrants exercisable into one common share at $0.25 during the first year and $0.35 during the second year. The agent warrants have a fair value, calculated using the Black-Scholes option pricing model, of $101,686 or $0.17 per warrant, assuming an expected life of two years, a risk-free interest rate of 1.45%, an expected dividend rate of 0.00% and an expected annual volatility coefficient of 156.00%.

(v) On March 7, 2011, the Company closed a non-brokered private placement of 3,612,000 units at $0.45 per unit for gross proceeds of $1,625,400. Each unit consisted of one share and one purchase warrant exercisable into one common share at $1.00 during the first year and $1.25 during the second year. The stock closed at $0.43 on the date of the announcement of the private placement; accordingly, $72,240 was attributed to the value of the warrants issued. The Company also issued 252,840 agent warrants exercisable into one common share at $1.00 during the first year and $1.25 during the second year. The agent warrants have a fair value, calculated using the Black-Scholes option pricing model, of $53,780 or $0.21 per warrant, assuming an expected life of two years, a risk-free interest rate of 1.85%, an expected dividend rate of 0.00% and an expected annual volatility coefficient of 141.00%.

6. Share Capital (continued)

c) Private placements (continued)

(vi) On April 11, 2011, the Company closed a non-brokered private placement of 6,972,222 units at $0.45 per unit for gross proceeds of $3,137,500. Each unit consisted of one share and one purchase warrant exercisable into one common share at $1.00 during the first year and $1.25 during the second year. The stock closed at $0.43 on the date of the announcement of the private placement; accordingly, $139,444 was attributed to the value of the warrants issued. The Company also issued 488,055 agent warrants exercisable into one common share at $1.00 during the first year and $1.25 during the second year. The agent warrants have a fair value, calculated using the Black-Scholes option pricing model, of $126,382 or $0.26 per warrant, assuming an expected life of two years, a risk-free interest rate of 1.93%, an expected dividend rate of 0.00% and an expected volatility coefficient of 143.00%.

d) Warrants outstanding

	Number of Warrants	Weighted Avg Exercise Price
Outstanding at September 30, 2009	1,269,551	$ 1.30
Warrants granted	4,101,282	0.31
Warrants expired	(1,129,551)	1.50
Outstanding at September 30, 2010	4,241,282	0.34
Warrants granted	17,246,220	0.81
Warrants exercised	(6,516,948)	0.23
Warrants expired	(10,000)	0.25
Outstanding at September 30, 2011	14,960,554	$ 0.89

As at September 30, 2011, the following share purchase warrants of the Company were outstanding:

Exercise Price	Number of Warrants	Expiry Date
$ 0.25	(1) 10,000	October 29, 2011
$ 0.30	150,000	March 25, 2012
$ 0.30	498,000	March 26, 2012
$0.25/$0.35	3,718,332	October 20,2012
$1.00/$1.25	3,612,000	March 7, 2013
$1.00/$1.25	6,972,222	April 11, 2013
$ 0.89	14,960,554	

(1) On October 21, 2010, these warrants were re-priced from $1.00 to $0.25. These warrants expired subsequent to September 30, 2011.

6. Share Capital (continued)

e) Agent warrants outstanding

	Number of Warrants	Weighted Avg Exercise Price
Outstanding at September 30, 2009 and 2010	-	$ -
Agent warrants granted	1,322,561	0.76
Agent warrants exercised	(293,791)	(0.25)
Outstanding at September 30, 2011	1,028,770	$ 0.90

As at September 30, 2011, the following agent warrants of the Company were outstanding:

Exercise Price	Number of Warrants	Expiry Date
$0.25/$0.35	287,875	October 20, 2012
$1.00/$1.25	252,840	March 7, 2013
$1.00/$1.25	488,055	April 11, 2013
$ 0.90	1,028,770	

f) Options outstanding

The Company, in accordance with the policies of the TSX Venture Exchange, is authorized to grant options to directors, officers, and employees to acquire common shares. The Company's previous stock option plan was cancelled and the Company has adopted the 2011 Stock Option Incentive Plan (the "Plan"). The essential elements of the Plan provide that the aggregate number of shares of the Company's capital stock issuable pursuant to options granted under the Plan may not exceed 10% of the issued common shares of the Company from time to time. Options granted under the Plan may have a maximum term of ten (10) years. The exercise price of options granted under the Plan will not be less than the fair market value price of the shares on the date of grant of the options (defined as the last closing market price of the Company's shares on the last day shares are traded prior to the grant date). Stock options granted under the Plan vest immediately subject to vesting terms which may be imposed at the discretion of the Directors.

	Number of Options	Weighted Average Exercise Price
Outstanding at September 30, 2009	754,400	$ 1.70
Options cancelled	(754,400)	1.70
Options granted	1,075,000	0.20
Outstanding at September 30, 2010	1,075,000	0.20
Options granted	2,645,000	0.34
Options exercised	(557,500)	(0.21)
Outstanding at September 30, 2011	3,162,500	$ 0.32

6. Share Capital (continued)

f) Options outstanding (continued)

The following summarizes the stock options outstanding and exercisable at September 30, 2011:

Exercise Price	Number of Options Outstanding	Number of Options Exercisable	Expiry Date
$ 0.20	622,500	622,500	May 5, 2012
$ 0.25	995,000	995,000	October 28, 2012
$ 0.35	200,000	200,000	December 1, 2012
$ 0.35	300,000	300,000	December 15, 2012
$ 0.45	220,000	110,000	January 5, 2013
$ 0.45	500,000	500,000	April 11, 2013
$ 0.45	125,000	31,250	May 6, 2013
$ 0.38	200,000	200,000	September 14, 2013
$ 0.32	3,162,500	2,958,750	

On May 5, 2010, 1,075,000 stock options were granted to directors and consultants of the Company to acquire 1,075,000 shares of the Company at an exercise price of $0.20 per share for a period of two years. These options have a fair value, calculated using the Black-Scholes option pricing model, of $166,534 or $0.15 per share, assuming an expected life of two years, a risk-free interest rate of 1.72%, an expected dividend rate of 0.00% and an expected volatility coefficient of 170.00%.

On October 28, 2010, the Company issued 1,100,000 stock options at a price of $0.25 for a period of two years. These options have a fair value, calculated using the Black-Scholes option pricing model, of $179,863 or $0.16 per option, assuming an expected life of two years, a risk-free interest rate of 1.45%, an expected dividend rate of 0.00% and an expected annual volatility coefficient of 158.00%.

On December 1, 2010, the Company issued 200,000 stock options at a price of $0.35 for a period of two years. These options have a fair value, calculated using the Black-Scholes option pricing model, of $51,254 or $0.26 per option, assuming an expected life of two years, a risk-free interest rate of 1.67%, an expected dividend rate of 0.00% and an expected annual volatility coefficient of 155.00%.

On December 15, 2010, the Company issued 300,000 stock options at a price of $0.35 for a period of two years. These options have a fair value, calculated using the Black-Scholes option pricing model, of $114,282 or $0.38 per option, assuming an expected life of two years, a risk-free interest rate of 1.72%, an expected dividend rate of 0.00% and an expected annual volatility coefficient of 156.00%.

On January 5, 2011, the Company issued 220,000 stock options at a price of $0.45 for a period of 2 years to investor relations consultants which vest quarterly over 12 months. These options have a fair value on the date of grant, calculated using the Black-Scholes option pricing model, of $70,387 or $0.32 per option, assuming an expected life of two years, a risk-free interest rate of 1.76%, an expected dividend rate of 0.00% and an expected annual volatility coefficient of 148.00%.

On April 11, 2011, the Company granted 500,000 stock options at a price of $0.45 for a period of 2 years. These options have a fair value, calculated using the Black-Scholes option pricing model, of $155,920 or $0.31 per option, assuming an expected life of two years, a risk-free interest rate of 1.93%, an expected dividend rate of 0.00% and an expected annual volatility coefficient of 143.00%.

6. Share Capital (continued)

f) Options outstanding (continued)

On May 6, 2011, the Company granted 125,000 stock options at a price of $0.45 for a period of 2 years to investor relations consultants which vest quarterly over 12 months. These options have a fair value on the date of grant, calculated using the Black-Scholes option pricing model, of $33,331 or $0.27 per option, assuming an expected life of two years, a risk-free interest rate of 1.67%, an expected dividend rate of 0.00% and an expected annual volatility coefficient of 141.00%.

On September 14, 2011, the Company granted 200,000 stock options at a price of $0.38 for a period of 2 years. These options have a fair value, calculated using the Black-Scholes option pricing model, of $36,634 or $0.18 per option, assuming an expected life of two years, a risk-free interest rate of 0.93%, an expected dividend rate of 0.00% and an expected annual volatility coefficient of 90.00%.

g) Warrants

September 30,	2011	2010
Balance, beginning of the year	$ -	$ -
Warrants issued as part of private placement	211,684	-
Agents warrants issued	281,847	-
Reallocation on exercise of agents warrants	(51,355)	-
Balance, end of year	$ 422,176	$ -

h) Contributed surplus

September 30,	2011	2010
Balance, beginning of the year	$ 2,329,347	$ 2,162,813
Stock-based compensation expense	586,602	166,534
Reallocation on exercise of stock options	(84,674)	-
Balance, end of year	$ 2,831,275	$ 2,329,347

7. Supplemental Cash Flow Information

The following non-cash transactions were recorded during the year ended:

September 30,	**2011**	**2010**
Investing and financing activities		
Shares issued for mineral property acquisition	$ 2,168,333	$ -
Shares issued for debt	$ 6,600	$ 82,466
Subscription receivable exchanged for mineral property acquisition	$ 1,500,000	$ -
Agents warrants issued for share issue costs	$ 281,847	$ -
Accounts payable included in share issue costs	$ 42,000	$ -

8. Related Party Transactions

The following amounts were paid or accrued to directors or companies controlled by directors or officers of the Company for services provided during the year. These amounts have been recorded at the exchange amount being the compensation agreed to by both parties:

		2011		2010
Consulting	$	84,500	$	42,000
Director fees	$	23,000	$	12,000
Office and administration	$	62,304	$	60,469

The amount due from related parties at September 30, 2011 of $59,339 (2010 - $Nil) is due from companies which are controlled by a director of the Company.

Included in the amount due to related parties at September 30, 2011 is $Nil (2010 – $1,350) due to a company which is controlled by a director of the Company, and $38,318 (2010 - $34,061) due to directors of the Company.

Included in accounts payable at September 30, 2011 is $168 (2010 - $Nil) due to a director.

Amounts due to related parties are unsecured, do not bear interest, and are classified as a current liability due to their nature and expected time of repayment; accordingly, the fair value cannot be practicably determined.

9. Segmented Information

The Company operates in one industry segment, the junior natural resource – exploration industry, and in two geographical segments, Canada and the United States. The significant categories identifiable with these geological areas are as follows:

	September 30, 2011					
		Canada		US		Total
Deposit on option to purchase	$	-	$	1,687,294	$	1,687,294
Mineral property acquisition costs	$	-	$	5,777,664	$	5,777,664
Total assets	$	544,825	$	7,464,958	$	8,009,783

	September 30, 2010					
		Canada		US		Total
Mineral property acquisition costs	$	240,000	$	-	$	240,000
Deferred exploration expenditures	$	249,822	$	-	$	249,822
Total assets	$	516,749	$	-	$	516,749

		2011		2010
Loss for the year				
Canada	$	2,381,350	$	3,804,834
US		-		-
Total loss for the year	$	2,381,350	$	3,804,834

10. Financial Instruments

Capital risk management

The Company manages its capital to ensure it will be able to continue as a going concern largely through equity financing. These stock issues depend on numerous factors including a positive mineral exploration environment, positive stock market conditions, a company's track record, and the experience of management. The capital structure of the Company consists of shareholders' equity, contributed surplus comprising issued capital, and deficit. The Company is not exposed to externally imposed capital requirements. There were no changes in the Company's approach to capital management during the year ended September 30, 2011.

Financial risk management

The Company monitors and manages the financial risks relating to operations through analysis of exposures by degree and magnitude of risks. These risks include credit risk, market risk, and liquidity risk.

Credit risk
Credit risk refers to the risk that another entity will default on its contractual obligations resulting in financial loss to the Company.

The Company's only significant financial asset is cash which is on deposit at a high credit-worthy financial institution. The financial assets are not subject to material financial risks.

Market risk
Market risk includes currency risk, interest rate risk, and price risk. The Company's activities expose it primarily to the financial risks of changes in the price of resources. The Company does not currently hold any financial instruments that mitigate this risk.

Foreign currency risk
Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in the foreign exchange rates. The Company's functional and reporting currency is the Canadian dollar. The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates to the extent that various transactions incurred by the Company are not denominated in Canadian dollars. The Company has not entered into any foreign currency contracts to mitigate this risk.

Liquidity risk
Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations when they become due, or can only do so at excessive cost. The Company expects to satisfy obligations under accounts payable and accrued liabilities. Management intends to continue, as was done in the past, to finance its activities by raising funds by private equity investments, loans, or debentures. Even if it succeeded in financing its activities in the past, management cannot comment on the success of its future fund raising and believes that the liquidity risk is high.

Fair value of financial instruments

The carrying values of cash, amounts receivable, amounts due to/from related parties, and accounts payable and accrued liabilities approximate their fair values due to the relatively short periods to maturity and terms of these financials instruments.

Financial instruments recorded at fair value on the balance sheets 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:

10. Financial Instruments (continued)

Fair value of financial instruments (continued)

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); and
Level 3 – valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

The fair value hierarchy requires the use of observable market inputs whenever such inputs exist. A financial instrument is classified to the lowest level of the hierarchy for which a significant input has been considered in measuring fair value.

The following table presents the financial instruments recorded at fair value in the balance sheets, classified using the fair value hierarchy described above:

2011	**Level 1**	**Level 2**	**Level 3**
Cash	$ 428,550	$ -	$ -

2010	**Level 1**	**Level 2**	**Level 3**
Cash	$ 668	$ -	$ -

11. Income Taxes

A reconciliation of income taxes at statutory rates with the reported taxes is as follows:

September 30,	**2011**	**2010**
Loss before income taxes	$ (2,381,350)	$ (3,804,834)
Statutory Canadian corporate tax rate	27.00%	28.88%
Income tax recovery at statutory rates	$ (642,965)	$ (1,098,836)
Non-deductible items for tax purposes	170,135	59,594
Adjustments to future tax assets and liabilities for substantively enacted changes in tax laws and rates	35,024	139,621
Change in valuation allowance	437,806	899,621
	$ -	$ -

11. Income Taxes (continued)

The significant components of the Company's future income tax assets are as follows:

September 30,		**2011**		**2010**
Future income tax assets				
Equipment	$	6,667	$	6,469
Mineral properties		1,897,334		1,769,254
Share issuance costs		144,960		8,830
Net capital losses available		39,815		39,815
Non-capital losses available for future periods		1,226,399		877,380
		3,315,175		2,701,748
Valuation allowance		(3,315,175)		(2,701,748)
	$	**-**	$	-

At September 30, 2011 the Company has non-capital tax losses of approximately $4,905,000 available for carry-forward to reduce future years' income taxes, expiring as follows:

Expiry Date	**Amount**
2014	$ 358,000
2015	261,000
2026	598,000
2027	870,000
2028	518,000
2029	314,000
2030	590,000
2031	1,396,000
	$4,905,000

The Company also has capital losses of $319,000 available to reduce future years' income taxes. In addition the Company has available mineral resource related expenditure pools totaling approximately $13,367,000 which may be deducted against future taxable income on a discretionary basis.

Future tax benefits, which may arise as a result of applying these deductions to taxable income, have not been recognized in these accounts.

12. Subsequent Events

a) On October 26, 2011, 250,000 warrants were exercised at $0.25 for gross proceeds of $62,500.

b) On October 31, 2011, 12,000 agent warrants were exercised at $0.25 for gross proceeds of $3,000.

c) On October 29, 2011, 10,000 warrants expired at $0.25.

d) On October 31, 2011, 200,000 warrants were exercised at $0.25 for gross proceeds of $50,000.