THELON CAPITAL LTD.

Financial Statements

For the Year Ended September 30, 2012

(Expressed in Canadian Dollars)

THELON CAPITAL LTD.

Financial Statements

CHARTERED
ACCOUNTANTS
MacKay LLP

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Independent Auditor's Report

To the Shareholders of
Thelon Capital Ltd.

We have audited the accompanying financial statements of Thelon Capital Ltd., which comprise the statements of financial position as at September 30, 2012, September 30, 2011, and October 1, 2010, and the statements of comprehensive loss, changes in equity and cash flows for the years ended September 30, 2012 and September 30, 2011, and a summary of significant accounting policies and other explanatory information.

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

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. as at September 30, 2012, September 30, 2011, and October 1, 2010 and its financial performance and its cash flows for the years ended September 30, 2012 and September 30, 2011 in accordance with International Financial Reporting Standards.

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. to continue as a going concern.

"MacKay LLP"

Chartered Accountants
Vancouver, British Columbia
January 28, 2013

THELON CAPITAL LTD.

Statements of Financial Position
(Expressed in Canadian Dollars)

As at	September 30, 2012	(note 15) September 30, 2011	(note 15) October 1, 2010
Assets			
Current			
Cash	**$ -**	$ 428,550	$ 668
Amounts receivable	**444**	1,623	-
HST receivable	**11,304**	15,831	17,883
Advances to related parties (note 10)	**4,514**	59,339	-
Prepaid expenses	**25,600**	37,414	5,514
	41,862	542,757	24,065
Non-current			
Equipment (note 4)	**1,499**	2,068	2,862
Mineral interests (note 5)	**-**	5,777,664	489,822
Deposit on option to purchase (note 6)	**-**	1,687,294	-
	$ 43,361	$ 8,009,783	$ 516,749
Liabilities			
Current			
Cheques written in excess of bank balance	**$ 9,099**	$ -	$ -
Accounts payable and accrued liabilities (note 10)	**338,779**	313,914	99,610
Promissory note payable (note 7)	**10,000**	-	34,401
Advances from related parties (note 10)	**91,260**	38,318	35,411
	449,138	352,232	169,422
Shareholders' Equity			
Share capital (note 8)	**21,759,624**	21,642,026	12,819,147
Share subscriptions receivable	**(122,909)**	(60,409)	-
Share subscriptions received	**-**	-	15,000
Reserves	**3,182,142**	3,279,427	2,329,347
Accumulated deficit	**(25,224,634)**	(17,203,493)	(14,816,167)
	(405,777)	7,657,551	347,327
	$ 43,361	$ 8,009,783	$ 516,749

Nature and continuance of operations (note 1)
Commitments (note 5)
Subsequent events (note 16)

These financial statements were authorized for issue by the Board of Directors on January 28, 2013. They are signed on the Company's behalf by:

"Jason Walsh" Director

"Geoff Watson" Director

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

THELON CAPITAL LTD.

Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	For the year ended September 30, 2012	2011 (note 15)
Administrative expenses		
Advertising and promotion	**$ 64,079**	$ 226,518
Bank charges and interest	**4,340**	11,169
Consulting (note 10)	**209,400**	396,951
Depreciation	**569**	794
Director fees (note 10)	**24,000**	23,000
Legal and accounting	**82,191**	99,119
Office and administration (note 10)	**65,458**	82,567
Share-based compensation (reversal) (notes 9 and 10)	**(1,812)**	592,578
Shareholder relations	**49,195**	236,710
Telephone	**14,784**	15,141
Transfer agent and exchange fees	**21,286**	53,202
Travel (note 10)	**42,975**	120,361
Loss before other items	**(576,465)**	(1,858,110)
Other items		
Foreign exchange gain (loss)	**6,609**	(17,370)
Impairment of mineral interest (note 5)	**(5,819,820)**	-
Other income	**221**	476
Recovery of mineral properties	**-**	10,833
Write off of abandoned properties	**-**	(523,155)
Write off of deposit on option to purchase (note 6)	**(1,725,061)**	-
	(7,538,051)	(529,216)
Net and comprehensive loss for the year	**$ (8,114,516)**	$ (2,387,326)
Basic and diluted loss per share	**$ 0.19**	$ 0.07
Weighted average number of shares outstanding	**42,805,883**	32,438,152

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

THELON CAPITAL LTD.

Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Number of Shares	Share Capital	Share Subscriptions Receivable	Share Subcriptions Received	Reserves: Share-Based Payment Reserve	Reserves: Warrant Reserve	Reserves: Total	Deficit	Total Equity
Balance at October 1, 2010 (note 15)	10,715,973	$ 12,819,147	$ -	$ 15,000	$ 2,329,347	$ -	$ 2,329,347	$ (14,816,167)	$ 347,327
Shares issued for mineral interests	7,033,333	2,168,333	-	-	-	-	-	-	2,168,333
Shares issued for debt	14,666	6,600	-	-	-	-	-	-	6,600
Shares issued for cash	17,246,220	5,550,515	(60,409)	(15,000)	-	211,683	211,683	-	5,686,789
Warrants exercised	6,516,948	1,473,698	-	-	-	-	-	-	1,473,698
Stock options exercised	557,500	116,750	-	-	-	-	-	-	116,750
Fair value of stock options exercised	-	84,674	-	-	(84,674)	-	(84,674)	-	-
Agent warrants exercised	293,791	73,448	-	-	-	-	-	-	73,448
Fair value of agent warrants exercised	-	51,355			-	(51,355)	(51,355)	-	-
Share issue costs	-	(702,494)	-	-	-	281,848	281,848	-	(420,646)
Share-based compensation	-	-	-	-	592,578	-	592,578	-	592,578
Loss for the year	-	-	-	-	-	-	-	(2,387,326)	(2,387,326)
Balance at September 30, 2011 (note 15)	42,378,431	$ 21,642,026	$ (60,409)	$ -	$ 2,837,251	$ 442,176	$ 3,279,427	$ (17,203,493)	$ 7,657,551
Balance at September 30, 2011 (note 15)	42,378,431	$ 21,642,026	$ (60,409)	$ -	$ 2,837,251	$ 442,176	$ 3,279,427	$ (17,203,493)	$ 7,657,551
Warrants exercised	450,000	112,500	(62,500)	-	-	-	-	-	50,000
Agents warrants exercised	12,000	3,000	-	-	-	-	-	-	3,000
Fair value of agents warrants exercised	-	2,098	-	-	-	(2,098)	(2,098)	-	-
Fair value of stock options expired	-	-	-	-	(93,375)	-	(93,375)	93,375	-
Share-based compensation	-	-	-	-	(1,812)	-	(1,812)	-	(1,812)
Loss for the year	-	-	-	-	-	-	-	(8,114,516)	(8,114,516)
Balance at September 30, 2012	**42,840,431**	**$ 21,759,624**	**$ (122,909)**	**$ -**	**$ 2,742,064**	**$ 440,078**	**$ 3,182,142**	**$ (25,224,634)**	**$ (405,777)**

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

THELON CAPITAL LTD.

Statements of Cash Flows
(Expressed in Canadian Dollars)

	For the year ended September 30, 2012	2011 (note 15)
Cash provided by (used for)		
Operating activities		
Net loss for the year	**$ (8,114,516)**	$ (2,387,326)
Add items not affecting cash		
Depreciation	**569**	794
Foreign exchange loss (gain)	**(6,609)**	17,370
Impairment of mineral interest	**5,819,820**	-
Interest paid by shares	**-**	6,600
Share-based compensation (reversal)	**(1,812)**	592,578
Write off of abandoned properties	**-**	523,155
Write off of deposit on option to purchase	**1,725,061**	-
	(577,487)	(1,246,829)
Net change in non-cash working capital	**104,031**	13,822
	(473,456)	(1,233,007)
Financing activities		
Advances from related parties	**52,942**	-
Issuance of shares for cash	**53,000**	5,850,686
Promissory notes payable (repaid)	**10,000**	(34,401)
Unit issue costs	**-**	(378,647)
	115,942	5,437,638
Investing activities		
Acquisition of mineral interests	**(103,802)**	(2,015,653)
Advances to (from) related parties	**54,825**	(56,432)
Deposit on option to purchase	**(37,767)**	(1,687,294)
	(86,744)	(3,759,379)
Effect of foreign exchange translation on cash	**6,609**	(17,370)
Net increase (decrease) in cash	**(437,649)**	427,882
Cash, beginning of year	**428,550**	668
Cash (cheques written in excess of bank balance), end of year	**$ (9,099)**	$ 428,550
Interest paid	**$ 2,679**	$ -
Interest received	**$ 221**	$ 102

Supplemental cash flow disclosure (note 13)

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Thelon Capital Ltd. (the "Company") is a public company incorporated under the Company Act of British Columbia on February 2, 1982. 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 under the trading symbol "THC" 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's principal business activity is the acquisition and exploration of mineral properties.

The Company's corporate office and principal place of business is at Suite 609 – 475 Howe Street, Vancouver, British Columbia, Canada, V6C 2B3.

The Company is an exploration stage company with respect to its mineral interests. Based on the information available to date, the Company has not yet determined whether its mineral interests contain economically recoverable reserves. The recoverability of the amounts shown for mineral interests is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their development, and upon future profitable production or disposition thereof.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to raise adequate financing to develop its mineral interests, and to commence profitable operations in the future. To date the Company has not generated any revenues and is considered to be in the exploration stage. These financial statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts and classification of liabilities that might be necessary should the Company be unable to continue in existence. Further discussion of liquidity risk has been disclosed in Note 14c.

Management is also 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 classifications used on the statement of financial position. 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.

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. BASIS OF PREPARATION

a) Statement of compliance and conversion to International Financial Reporting Standards

These are the Company's first annual financial statements prepared in accordance with International Financial Reporting Standards ("IFRS"). The Company previously prepared its annual financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP"). Canadian GAAP differs in some areas from IFRS. In preparing these financial statements, management has amended certain accounting policies and measurement methods previously applied in the Canadian GAAP financial statements to comply with IFRS. Note 15 contains the reconciliations and descriptions of the effect of the transition from Canadian GAAP to IFRS on the statements of financial position as at October 1, 2010 and September 30, 2011, and the statement of comprehensive loss for the year ended September 30, 2011.

b) Basis of presentation

These financial statements have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting except for cash flow information.

The preparation of these financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all years presented in the financial statements. They have also been applied in preparing an opening IFRS statement of financial position at October 1, 2010 for the purpose of the transition to IFRS, as required by IFRS 1, *First Time Adoption of International Financial Reporting Standards ("IFRS 1")*. The impact of the transition from Canadian GAAP to IFRS is explained in Note 15.

c) Foreign currencies

i) Presentation and functional currency

The presentation and functional currency of the Company is the Canadian Dollar.

ii) Foreign currency transactions

Transactions in currencies other than the functional currency are recorded at the rates of exchange prevailing on the dates of the transactions. At each financial position date, monetary assets and liabilities that are denominated in foreign currencies are translated at the rates prevailing at the date of the statement of financial position. Non-monetary items that are measured in terms of historical cost in a foreign currency are not retranslated.

d) Significant accounting judgments and estimates

The preparation of the financial statements using accounting policies consistent with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, disclosure of contingent assets and liabilities, and the reported amounts of revenues and expenses. The preparation of the financial statements also requires management to exercise judgment in the process of applying the accounting policies.

2. BASIS OF PREPARATION (continued)

d) Significant accounting judgments and estimates (continued)

i) Critical accounting estimates

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized prospectively from the period in which the estimates are revised. The following are the key estimate and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year:

(a) Impairment of assets

When there are indications that an asset may be impaired, the Company is required to estimate the asset's recoverable amount. Recoverable amount is the greater of value in use and fair value less costs to sell. Determining the value in use requires the Company to estimate expected future cash flows associated with the asset and a suitable discount rate in order to calculate present value. For the year ended September 30, 2012, impairments of non-financial assets were $7,544,881 (September 30, 2011 – $523,155).

(b) Useful life of property, plant, and equipment

Property, plant, and equipment are depreciated over the estimated useful life of the assets. Changes in the estimated useful lives could significantly increase or decrease the amount of depreciation recorded during the year and the carrying value of equipment. Total carrying value of property, plant, and equipment at September 30, 2012 was $1,499 (September 30, 2011 - $2,068).

(c) Share-based compensation

Management is required to make certain estimates when determining the fair value of stock options awards, and the number of awards that are expected to vest. These estimates affect the amount recognized as share-based compensation in the Company's statement of comprehensive loss. For the year ended September 30, 2012, the Company recognized share-based compensation expense (reversal) of $(1,812) (September 30, 2011 - $592,578).

ii) Critical judgments used in applying accounting policies

In the preparation of these financial statements, management has made judgments, aside from those that involve estimates, in the process of applying the accounting policies. These judgments can have an effect on the amounts recognized in the financial statements:

(a) Mineral Interests

Management is required to apply judgment in determining whether technical feasibility and commercial viability can be demonstrated for its mineral interests. Once technical feasibility and commercial viability of a property can be demonstrated, it is reclassified from mineral interests under exploration and subject to different accounting treatment. As at September 30, 2012 and September 30, 2011, management had determined that no reclassification of mineral interests was required.

2. BASIS OF PREPARATION (continued)

d) Significant accounting judgments and estimates (continued)

ii) Critical judgments used in applying accounting policies (continued)

(b) Income taxes

The measurement of deferred income tax assets requires management to make judgments in the interpretation and application of the relevant tax laws. The actual amount of income taxes only becomes final upon filing and acceptance of the tax return by the relevant authorities, which occurs subsequent to the issuance of the financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES

a) Financial instruments

Financial assets and financial liabilities are recognized on the statement of financial position when the Company becomes a party to the contractual provisions of the financial instrument. The Company does not have any derivative financial instruments.

i) Financial assets

The Company classifies its financial assets into categories, at initial recognition, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

(a) Fair value through profit or loss

This category comprises derivatives, or financial assets acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statements of financial position at fair value, with changes in fair value recognized in profit or loss in the statement of comprehensive loss. The Company has not classified any financial assets as fair value through profit and loss.

(b) Loans and receivables

These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. The Company has classified cash, amounts receivable, and advances to related parties as loans and receivables.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

i) Financial assets (continued)

(c) Held-to-maturity investments

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest rate method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in the statement of comprehensive loss. The Company has not classified any financial assets as held-to-maturity investments.

(d) Available-for-sale

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in other comprehensive income or loss ("OCI"). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from OCI and recognized in the statement of comprehensive loss. The Company has not classified any financial assets as available-for-sale.

Transaction costs associated with fair value through profit or loss financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

ii) Financial liabilities

The Company classifies its financial liabilities into one of two categories depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

(a) Fair value through profit or loss

This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are carried in the statement of financial position at fair value, with changes in fair value recognized in the statement of comprehensive loss. The Company has not classified any financial liabilities as fair value through profit and loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

a) Financial instruments (continued)

ii) Financial liabilities (continued)

(b) Other financial liabilities

This category includes accounts payable and accrued liabilities which are recognized at amortized cost. The Company has classified cheques issued in excess of bank balance, accounts payable and accrued liabilities, promissory note payable, and advances from related parties as other financial liabilities.

b) Cash and cash equivalents

Cash and cash equivalents in the statement of financial position is comprised of cash at banks and on hand, and short term deposits with an original maturity of three months or less, which are readily convertible into a known amount of cash.

c) Mineral interests

The Company is in the exploration stage with respect to its investment in mineral interests. Acquisition costs for mineral interests, net of recoveries, are capitalized on a property-by-property basis. Acquisition costs include cash consideration and the value of common shares, based on recent issue prices, issued for mineral interests pursuant to the terms of the agreement. Exploration expenditures, net of recoveries, are capitalized. After a property is determined by management to be commercially feasible, acquisition costs and deferred expenditures on the property will be transferred to property, plant, and equipment as mine and mill costs. Prior to transfer the assets will be tested for impairment. The costs related to a property from which there is production, will be depleted and amortized using the unit-of-production method.

A mineral interest acquired under an option agreement where payments are made at the sole discretion of the Company is capitalized at the time of payment. Option payments received are treated as a reduction of the carrying value of the related acquisition cost for the mineral interest until the payments are in excess of acquisition costs, at which time they are then credited to operations. Option payments are at the discretion of the optionee; accordingly, they are accounted for when receipt is reasonably assured.

Capitalized costs are assessed for impairment if facts and circumstances suggest that the carrying amount exceeds the recoverable amount. When there is little prospect of further work on a property being carried out by the Company or its partners, when a property is abandoned, or when the capitalized costs are no longer considered recoverable, the related property costs are written down to management's estimate of their net recoverable amount.

The recoverability of the carrying amount of mineral interests is dependent on successful development and commercial exploitation, or alternatively, the sale of the respective areas of interest.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

d) Property, plant, and equipment

Property, plant, and equipment ("PPE") is carried at cost less accumulated depreciation and accumulated impairment losses.

The cost of an item of PPE consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use, and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Property, plant, and equipment are depreciated annually at the following rates using the declining-balance method when the asset becomes available for use, and in the year of acquisition, only one-half of normal rates are used:

Furniture and fixtures	20%
Computer equipment	30%

An item of PPE is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in the statement of comprehensive loss.

Where an item of plant and equipment comprises major components with different useful lives, the components are accounted for as separate items of plant and equipment. Expenditures incurred to replace a component of an item of plant and equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

e) Impairment

At each financial position reporting date, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. Where the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash-generating unit to which the asset belongs.

An asset's recoverable amount is the higher of fair value less costs to sell, and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessment of the time value of money and the risks specific to the asset. If the recoverable amount of an asset or cash generating unit is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the statement of comprehensive loss.

Where an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years. A reversal of an impairment loss is recognized immediately in the statement of comprehensive loss.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

f) Share capital

i) Common shares

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

ii) Equity units

Proceeds received on the issuance of units comprised of common shares and warrants are allocated on the residual value method where proceeds are allocated to the common shares up to their fair value as determined by the current quoted trading price of the announcement date, and the balance, if any, to the reserve for the warrants.

iii) Non-monetary consideration

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 of the shares is used to record the transaction. The fair market value of the shares is based on the trading price of those shares on the appropriate stock exchange on the date of the agreement to issue or receive shares as determined by the board of directors.

g) Share-based compensation

The share option plan allows Company employees and consultants to acquire shares of the Company. The fair value of share options granted to employees is recognized as an expense over the vesting period with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (a direct employee) or provides services similar to those performed by a direct employee (a consultant). The fair value is measured at grant date and recognized over the period during which the options vest.

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

The fair value of share options granted to non-employees is recognized as an expense in the statement of comprehensive loss and is recorded at the fair value of the services received, unless they are related to the issuance of shares. The amount related to the issuance of shares is recorded as a reduction of share capital.

When the value of services received in exchange for the share-based compensation cannot be reliably estimated, the fair value is measured by use of a valuation model. The expected life used in the model is adjusted, based on management’s best estimate, for the effects of non-transferability, exercise restrictions, and behavioral considerations.

All share-based compensation is reflected in reserves until exercised. Upon exercise, shares are issued from treasury and the amount reflected in reserves is credited to share capital, adjusted for any consideration paid.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

h) Equity reserves

Where share options or warrants expire or are cancelled, the fair value previously recognized is transferred from the equity reserve to accumulated deficit.

i) Loss per share

The Company presents basic and diluted loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all dilutive potential common shares.

j) Provisions

Provisions are recognized where a legal or constructive obligation has been incurred as a result of past events; it is probable that an outflow of resources embodying economic benefit will be required to settle the obligation; and a reliable estimate of the amount of the obligation can be made. If material, provisions are measured at the present value of the expenditures expected to be required to settle the obligation.

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

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

k) Income taxes

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

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

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

k) Income taxes (continued)

Deferred tax is provided using the statement of financial position liability method providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities in a transaction that is not a business combination and that affect neither accounting nor taxable profit; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

l) Segment reporting

The Company operates in a single reportable segment being the acquisition, exploration, and development of mineral interests.

m) New accounting standards and interpretations not yet adopted

The following accounting pronouncements have been released but have not yet been adopted by the Company:

i) IFRS 9 Financial Instruments

In November 2009, the IASB issued, and subsequently revised in October 2010, IFRS 9 Financial Instruments (IFRS 9) as a first phase in its ongoing project to replace IAS 39. IFRS 9, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. The standard also adds guidance on the classification and measurement of financial liabilities. Management has not yet determined the potential impact the adoption of IFRS 9 will have on the Company's financial statements.

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) New accounting standards and interpretations not yet adopted (continued)

ii) IFRS 10 Consolidated Financial Statements

In May 2011, the IASB issued IFRS 10 Consolidated Financial Statements (IFRS 10). IFRS 10, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 10 replaces Standing Interpretations Committee 12 Consolidation – Special Purpose Entities (SIC 12) and IAS 27 Consolidated and Separate Financial Statements (IAS 27). IFRS 10 eliminates the current risk and rewards approach and establishes control as the single basis for determining the consolidation of an entity. The standard provides guidance on how to apply the control principles in a number of situations, including agency relationships and holding potential voting rights. Management has not yet determined the potential impact that the adoption of IFRS 10 will have on the Company's financial statements.

iii) IFRS 12 Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12 Disclosure of Interests in Other Entities (IFRS 12). IFRS 12, which is to be applied retrospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 12 outlines the required disclosures for interests in subsidiaries and joint arrangements. The new disclosures require information that will assist financial statement users to evaluate the nature, risks and financial effects associated with an entity's interests in subsidiaries and joint arrangements. Management has not yet determined the potential impact that the adoption of IFRS 12 will have on the Company's financial statements.

iv) IFRS 13 Fair Value Measurement

In May 2011, the IASB issued IFRS 13 Fair Value Measurement (IFRS 13). IFRS 13, which is to be applied prospectively, is effective for annual periods beginning on or after January 1, 2013, with earlier application permitted.

IFRS 13 defines fair value, provides a framework for measuring fair value, and includes disclosure requirements for fair value measurements. IFRS 13 will be applied in most cases when another IFRS requires (or permits) fair value measurement. Management has not yet determined the potential impact that the adoption of IFRS 13 will have on the Company's financial statements.

v) Other

In June 2011, the IASB issued amendments to IAS 1 Presentation of Financial Statements, to revise the way in which other comprehensive income is presented. The Company does not believe the changes resulting from the amended standard will have an impact on its financial statements. The amended standard is effective for annual periods beginning on or after July 1, 2012.

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (continued)

m) New accounting standards and interpretations not yet adopted (continued)

v) Other (continued)

In June 2011, the IASB issued amendments to IAS 19 Employee Benefits, with revised requirements for pensions and other postretirement benefits, termination benefits, and other changes. The Company does not believe the changes resulting from these amendments are relevant to its financial statements. The amended standard is effective for annual periods beginning on or after January 1, 2013.

In May 2011, the IASB issued IFRS 11 Joint Arrangements, in addition to IFRS 10 and IFRS 12 as discussed above. The Company does not believe the changes resulting from this new standard are relevant to its financial statements. IFRS 11 is effective for annual periods beginning on or after January 1, 2013.

In October 2011, the IASB issued IFRIC 20 Stripping Costs in the production phase of a surface mine. The Company does not believe the changes resulting from this new standard are relevant to its financial statements. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013.

4. EQUIPMENT

	Furniture and Fixtures	Computer Equipment	Total
Cost			
Balance at October 1, 2010	$ 9,068	$ 22,357	$ 31,425
Additions	-	-	-
Balance at September 30, 2011	9,068	22,357	31,425
Additions	-	-	-
Balance at September 30, 2012	**$ 9,068**	**$ 22,357**	**$ 31,425**
Accumulated Depreciation			
Balance at October 1, 2010	$ 8,425	$ 20,138	$ 28,563
Depreciation for the year	128	666	794
Balance at September 30, 2011	8,553	20,804	29,357
Depreciation for the year	103	466	569
Balance at September 30, 2012	**$ 8,656**	**$ 21,270**	**$ 29,926**
Carrying Amounts			
At October 1, 2010	**$ 643**	**$ 2,219**	**$ 2,862**
At September 30, 2011	**$ 515**	**$ 1,553**	**$ 2,068**
At September 30, 2012	**$ 412**	**$ 1,087**	**$ 1,499**

(Expressed in Canadian Dollars)

5. MINERAL INTERESTS

	Athabasca Basin (Canada)	Jellico Project (US)	Total
Balance at October 1, 2010	$ 489,822	$ -	$ 489,822
Acquisition costs	-	5,777,664	5,777,664
Write-off of property	(489,822)	-	(489,822)
Balance at September 30, 2011	-	5,777,664	5,777,664
Acquisition costs	-	42,156	42,156
Impairment of mineral interest	-	(5,819,820)	(5,819,820)
Balance at September 30, 2012	**$ -**	**$ -**	**$ -**

a) 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.

5. MINERAL INTERESTS (continued)

b) 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$2,736,374 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.

A bonus of $50,000 was paid to a company controlled by a director on this transaction. This transaction is subject to finder's fees in accordance with TSX Venture Exchange policy and subject to TSX Venture Exchange approval.

At September 30, 2012, the Company has been unable to make the required payments to close the transaction. Although the vendor has not demanded payment, a written extension has not been received; therefore, at September 30, 2012, the Company has recorded an impairment of $5,819,820 against the accumulated costs to reflect the uncertainty around completion of the acquisition.

6. 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 remained 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 was due on February 15, 2012 to extend the closing date to April 15, 2012 which was not paid, US$22,000,000 was 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.

The Company was unable to pay the deposit of $500,000 on February 15, 2012 to extend the closing date. All the accumulated costs relating to this transaction have been written off.

(Expressed in Canadian Dollars)

7. PROMISSORY NOTE PAYABLE

The Company issued a promissory note in the principal amount of $25,000 on September 12, 2012 of which $10,000 was drawn as at September 30, 2012. The interest rate is 25% per annum and due on December 15, 2013. The Company has agreed to also issue common shares in such number to have an aggregate value of $5,000 on the day before the date upon which the shares are issued as additional consideration for providing funds to the Company.

8. SHARE CAPITAL

a) Common shares

Authorized:

Unlimited number of common shares without par value

Issued:

	Number		Issued Price		Amount
Balance at October 1, 2010	**10,715,973**			**$**	**12,819,147**
Issued for mineral interest	7,033,333	$	0.31		2,168,333
Issued for cash (private placements)	17,246,220	$	0.32		5,550,515
Stock options exercised	557,500	$	0.21		116,750
Warrants exercised	6,516,948	$	0.23		1,473,698
Agents warrants exercised	293,791	$	0.25		73,448
Shares issued for debt	14,666	$	0.45		6,600
Fair value of agent warrants exercised	-	$	-		51,355
Fair value of stock options exercised	-	$	-		84,674
Share issue costs	-	$	-		(702,494)
Balance at September 30, 2011	**42,378,431**			**$**	**21,642,026**
Warrants exercised	450,000	$	0.25		112,500
Agents warrants exercised	12,000	$	0.25		3,000
Fair value of agent warrants exercised	-	$	-		2,098
Balance at September 30, 2012	**42,840,431**			**$**	**21,759,624**

b) Escrow shares

Currently 4,167 shares (September 30, 2011 – 4,167) are held in escrow.

(Expressed in Canadian Dollars)

8. SHARE CAPITAL (continued)

c) Warrants outstanding

	Number of Warrants		Weighted Average Exercise Price
Balance at October 1, 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
Balance at September 30, 2011	**14,960,554**	**$**	**0.89**
Warrants exercised	(450,000)	$	0.25
Warrants expired	(658,000)	$	0.30
Balance at September 30, 2012	**13,852,554**	**$**	**0.85**

Expiry Date	Number of Warrants		Exercise Price
October 20, 2012	3,268,332	$	0.35
March 7, 2013	3,612,000	$	1.25
April 11, 2013	6,972,222	$	1.25
	13,852,554	**$**	**0.85**

d) Agents warrants outstanding

	Number of Warrants		Weighted Average Exercise Price
Balance at October 1, 2010	**-**	**$**	**-**
Agent warrants granted	1,322,561	$	0.76
Agent warrants exercised	(293,791)	$	0.25
Balance at September 30, 2011	**1,028,770**	**$**	**0.90**
Agent warrants exercised	(12,000)	$	0.25
Balance at September 30, 2012	**1,016,770**	**$**	**0.82**

(Expressed in Canadian Dollars)

8. SHARE CAPITAL (continued)

d) Agents warrants outstanding (continued)

Expiry Date	Number of Warrants		Exercise Price
October 20, 2012	275,875	$	0.35
March 7, 2013	252,840	$	1.25
April 11, 2013	488,055	$	1.25
	1,016,770	**$**	**0.82**

9. SHARE-BASED COMPENSATION

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 2012 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.

The following summarizes the stock options outstanding and exercisable at September 30, 2012:

	Number of Options		Weighted Average Exercise Price
Balance at October 1, 2010	**1,075,000**	**$**	**0.20**
Options granted	2,645,000	$	0.34
Options exercised	(557,500)	$	0.21
Balance at September 30, 2011	**3,162,500**	**$**	**0.32**
Options expired	(622,500)	$	0.20
Balance at September 30, 2012	**2,540,000**	**$**	**0.35**

(Expressed in Canadian Dollars)

9. SHARE-BASED COMPENSATION (continued)

Grant Date	Expiry Date	Exercise Price		Number of Options Outstanding	Number of Options Exercisable
October 28, 2010	October 28, 2012	$	0.25	995,000	995,000
December 1, 2010	December 1, 2012	$	0.35	200,000	200,000
December 15, 2010	December 15, 2012	$	0.35	300,000	300,000
January 5, 2011	January 5, 2013	$	0.45	220,000	220,000
April 11, 2011	April 11, 2013	$	0.45	500,000	500,000
May 6, 2011	May 6, 2013	$	0.45	125,000	125,000
September 14, 2011	September 14, 2013	$	0.38	200,000	200,000
		$	**0.35**	**2,540,000**	**2,540,000**

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 two 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 two 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%.

On May 6, 2011, the Company granted 125,000 stock options at a price of $0.45 for a period of two 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 two 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%.

(Expressed in Canadian Dollars)

9. SHARE-BASED COMPENSATION (continued)

Expected annual volatility was determined solely based on historical volatility.

10. RELATED PARTY TRANSACTIONS

The Company has identified certain directors and senior officers as key management personnel. The following table lists the compensation costs paid to key management personnel and companies owned by key management personnel for the years ended September 30, 2012 and 2011:

	Consulting	Director fees	Office and Administration	Share-Based Compensation	Travel	September 30, 2012 Total
BUA Capital Management Ltd.	$ 81,000	$ -	$ -	$ -	$ 11,100	$ 92,100
BUA Group Holdings Ltd.	-		59,560	-	-	59,560
Geoff Watson	-	12,000	-	-	-	12,000
GRW Inc. (formerly Complete Communications Inc.)	37,000		-	-	-	37,000
Jason Walsh	-	12,000	-	-	-	12,000
	$ 118,000	**$ 24,000**	**$ 59,560**	**$ -**	**$ 11,100**	**$ 212,660**

	Consulting	Director fees	Office and Administration	Share-Based Compensation	September 30, 2011 Total
BUA Capital Management Ltd.	$ 57,500	$ -	$ -	$ 146,984	$ 204,484
BUA Group Holdings Ltd.	-		62,304	-	62,304
Complete Communications Inc.	27,000	-	-	-	27,000
Geoff Watson	-	11,000	-	32,702	43,702
George Heard	-	-	-	155,920	155,920
Jason Walsh	-	12,000	-	-	12,000
John Roozendahl	-	-	-	16,351	16,351
	$ 84,500	$ 23,000	$ 62,304	$ 351,957	$ 521,761

BUA Capital Management Ltd. and BUA Group Holdings Ltd. are private companies controlled by the President of the Company, Jason Walsh.

GRW Inc. (formerly Complete Communications Inc.) is a private company controlled by a director, Geoff Watson.

At September 30, 2012, the Company was owed $4,514 (September 30, 2011 - $4,514) from BUA Group Holdings Ltd.

At September 30, 2012, the Company owed $8,348 (September 30, 2011 – $(54,825)) to BUA Capital Management Ltd.; $26,504 (September 30, 2011 - $38,318) to Jason Walsh; $1,000 (September 30, 2011 – nil) to Geoff Watson; and $61,000 (September 30, 2011 - $Nil) to Thelon Diamond Company Limited, a private company with common directors controlled by Jason Walsh.

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

At September 30, 2012, $2,000 in director fees for the month ended September 30, 2012 were not paid and are included in accounts payable and accrued liabilities.

(Expressed in Canadian Dollars)

11. 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 geographic areas are as follows:

	Canada	US	Total
Mineral interests	$ 489,822	$ -	$ 489,822
Deposit on option to purchase	-	-	-
Other assets	26,927	-	26,927
Balance at October 1, 2010	$ 516,749	$ -	$ 516,749
Mineral interests	$ -	$ 5,777,664	$ 5,777,664
Deposit on option to purchase	-	1,687,294	1,687,294
Other assets	544,825	-	544,825
Balance at September 30, 2011	$ 544,825	$ 7,464,958	$ 8,009,783
Other assets	**$ 43,361**	**$ -**	**$ 43,361**
Balance at September 30, 2012	**$ 43,361**	**$ -**	**$ 43,361**
Loss for the year ended September 30, 2011	$ (2,387,326)	$ -	$ (2,387,326)
Loss for the year ended September 30, 2012	**$ (569,635)**	**$ (7,544,881)**	**$ (8,114,516)**

(Expressed in Canadian Dollars)

12. INCOME TAXES

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

	September 30, 2012	September 30, 2011
Loss before income taxes	**$ (8,114,516)**	$ (2,387,326)
Statutory Canadian corporate tax rate	**25.38%**	27.00%
Income tax recovery at statutory rates	**$ (2,059,058)**	$ (644,578)
Non-deductible items for tax purposes	**225,913**	171,748
Adjustments to deferred tax assets and liabilities for substantively enacted changes in tax laws and rates	**27,091**	35,024
Tax benefits not recognized	**1,806,054**	437,806
	$ -	$ -

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

	September 30, 2012	September 30, 2011	October 1, 2010
Deferred income tax assets			
Equipment	**$ 6,810**	$ 6,667	$ 6,469
Mineral interests	**3,352,289**	1,897,334	1,769,254
Share issuance costs	**107,612**	144,960	8,830
Net capital losses available	**255,448**	39,815	39,815
Non-capital losses available for future years	**1,399,072**	1,226,399	877,380
	5,121,231	3,315,175	2,701,748
Tax benefits not recognzied	**(5,121,231)**	(3,315,175)	(2,701,748)
	$ -	$ -	$ -

At September 30, 2012 the Company has non-capital tax losses of approximately $5,596,000 available for carry-forward to reduce future years' income taxes, expiring as follows:

(Expressed in Canadian Dollars)

12. INCOME TAXES (continued)

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
2032		691,000
	$	**5,596,000**

The Company also has capital losses of approximately $2,044,000 available to reduce future years' income taxes. In addition the Company has available mineral resource related expenditure pools totaling approximately $13,409,000 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.

13. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing activities during the years ended September 30, 2012 and 2011 were as follows:

		September 30, 2012		**September 30, 2011**
Agent's warrants issued for share costs	**$**	**-**	$	281,847
Fair value of agent warrants exercised	**$**	**2,098**	$	51,355
Fair value of stock options exercised	**$**	**-**	$	84,674
Income taxes paid	**$**	**-**	$	-
Mineral interests included in accounts payable and accrued liabilities	**$**	**65,365**	$	127,011
Share costs included in accounts payable and accrued liabilities	**$**	**42,000**	$	42,000
Shares issued for debt	**$**	**-**	$	6,600
Shares issued for mineral interests	**$**	**-**	$	2,168,333

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

a) Fair value of financial instruments

The carrying values of cash, amounts receivable, amounts due to/from related parties, cheques issued in excess of bank balance, accounts payable and accrued liabilities, and promissory note payable approximate their carrying values due to the immediate or short-term nature of these instruments.

b) Fair value hierarchy

IFRS 7, Financial Instruments: Disclosures, establishes a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;
Level 2 – 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 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

c) Financial risk management

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

i) Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. Financial instruments that potentially subject the Company to credit risk consist primarily of cash. The Company limits its exposure to credit risk by placing its cash with a high credit quality financial institution in Canada. The Company's financial assets are not subject to material financial risks.

ii) Liquidity risk

Liquidity risk is the risk that the Company will encounter difficulty in raising funds to meet commitments associated with financial instruments and with property exploration and development. The Company manages liquidity risk by maintaining adequate cash balances.

The Company's expected source of cash flow in the upcoming year will be through equity financing. Cash on hand at September 30, 2012 and expected cash flows for the next 12 months are not sufficient to fund the Company's ongoing operational needs and close its major transaction (see note 5b). The Company will need funding through equity or debt financing, entering into joint venture agreements, or a combination thereof.

All of the Company's financial liabilities are classified as current and are anticipated to mature within the next fiscal period.

iii) Market risk

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

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

c) Financial risk management (continued)

iii) Market risk (continued)

(a) Interest rate risk

Interest rate risk consists of two components: to the extent that payments made or received on the Company's monetary assets and liabilities are affected by changes in the prevailing market interest rates, the Company is exposed to interest rate cash flow risk; and to the extent that changes in prevailing market rates differ from the interest rate in the Company's monetary assets and liabilities, the Company is exposed to interest rate price risk.

Current financial assets and financial liabilities are generally not exposed to interest rate risk because of their short-term nature and maturity. The Company is not exposed to interest rate price risk as it does not have any cash and cash equivalents at September 30, 2012 which bear interest.

(b) Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in foreign exchange rates. The Company is exposed to foreign currency risk to the extent that monetary assets and liabilities are denominated in foreign currency.

The Company is exposed to foreign currency risk with respect to cash, and accounts payable and accrued liabilities that are denominated in US dollars. The balance to close on a mineral interest is also denominated in US dollars (see note 5b).

	September 30, 2012 USD	September 30, 2011 USD	October 1, 2010 USD
Cash	**$ -**	$ 267	$ -
Accounts payable and accrued liabilities	**$ 96,054**	$ 156,468	$ -

At September 30, 2012, financial instruments were converted at a rate of $1.00 Canadian to US$1.0176.

The Company has not entered into any foreign currency contracts to mitigate foreign currency risk. The Company's sensitivity analysis suggests that a 5% change in the absolute rate of exchange for US dollars would not significantly affect its cash position at this time. If and when the Company closes its major transaction (see note 5b), a 5% change in the absolute rate of exchange for US dollars would significantly affect its cash position.

14. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

c) Financial risk management (continued)

iii) Market risk (continued)

(c) Capital risk management

The Company manages its capital to ensure that it will be able to continue as a going concern while maximizing the return to stakeholders through a suitable debt and equity balance appropriate for an entity of the Company's size and status. The Company's overall strategy remains unchanged from last year.

The capital structure of the Company consists of equity attributable to common shareholders, comprised of issued capital, warrants, reserves, and deficit. The availability of new capital will depend on many factors including a positive mineral exploration environment, positive stock market conditions, the Company's track record, and the experience of management. The Company is not subject to any external covenants on its capital.

15. FIRST TIME ADOPTION OF IFRS

a) Transition to IFRS

These are the Company's first annual financial statements prepared in accordance with IFRS. The accounting policies in Note 3 have been applied in preparing the financial statements for the year ended September 30, 2012, the comparative information for the year ended September 30, 2011, and the preparation of an opening statement of financial position on the transition date of October 1, 2010.

i) First time adoption

The guidance for the first time adoption of IFRS is set out in IFRS 1. *First-time Adoption of International Financial Reporting Standards*. Under IFRS 1, changes in accounting policies resulting from the adoption of IFRS are applied retrospectively at the transition date with all adjustments to deficit unless certain optional exemptions are applied. The Company has applied the following exemptions to its opening statement of financial position at October 1, 2010:

(a) Share-based payments

IFRS 1 does not require first-time adopters to apply IFRS 2, *Share-Based Payments*, to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the Transition Date. The Company has elected not to apply IFRS 2 to awards that vested prior to October 1, 2010.

(b) Business combinations

IFRS 1 indicates that a first-time adopter may elect not to apply IFRS 3 Business Combination retrospectively to business combinations that occurred before the date of transition to IFRS. The Company has elected to apply IFRS 3 to only those business combinations that occurred on or after the Transition Date and such business combinations have not been restated. As a result of this election, no adjustments were required to the Company's statement of financial position as at the Transition Date.

15. FIRST TIME ADOPTION OF IFRS (continued)

i) First time adoption

(c) Estimates

IFRS 1 requires that an entity's estimates under IFRS for the comparative periods must be consistent with estimates made for the same date under previous Canadian GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates for the comparative periods are consistent with its Canadian GAAP estimates for the same date.

b) Changes in accounting policies

The Company has changed certain accounting policies to be consistent with IFRS effective September 30, 2012, the Company's first annual IFRS reporting date.

i) Impairment of (non-financial) assets

IFRS requires a write down of assets if the higher of the fair market value and the value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Canadian GAAP required a write down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value.

IFRS also requires the reversal of any previous impairment losses, with the exception of goodwill, where circumstances have changed such that the level of impairment in the value of the assets has been reduced. Canadian GAAP prohibits the reversal of impairment losses.

The Company's accounting policies related to impairment of assets have been changed to reflect these differences. There is no impact on the Company's financial statements.

ii) Decommissioning liability (asset retirement obligations)

IFRS requires the recognition of a decommissioning liability for legal or constructive obligations, while current Canadian GAAP only requires the recognition of such liabilities for legal obligations. A constructive obligation exists when an entity has created reasonable expectations that it will take certain actions.

The Company's accounting policies related to decommissioning liabilities have been changed to reflect these differences. There is no impact on the Company's financial statements.

iii) Share-based payments

In certain circumstances, IFRS requires a different measurement of share-based compensation than Canadian GAAP. In particular, IFRS requires that each tranche (that vests separately) must be treated as a separate grant and that an estimate of forfeitures be included in the determination of the expense associated with stock option grants.

The Company's accounting policies related to share-based payments have been changed to reflect these differences (see note 15c).

(Expressed in Canadian Dollars)

15. FIRST TIME ADOPTION OF IFRS (continued)

c) Reconciliation of Canadian GAAP to IFRS

In preparing its opening IFRS statement of financial position at October 1, 2010, comparative information for the year ended September 30, 2011, and financial statements for the year ended September 30, 2011, the Company has adjusted amounts reported previously in financial statements prepared in accordance with Canadian GAAP.

An explanation of how the transition from previous Canadian GAAP to IFRS has affected the Company's financial position is set out in the table below:

	October 1, 2010			September 30, 2011		
	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets						
Current						
Cash	$ 668	$ -	$ 668	$ 428,550	$ -	$ 428,550
Amounts receivable	-	-	-	1,623	-	1,623
HST receivable	17,883	-	17,883	15,831	-	15,831
Due from related parties	-	-	-	59,339	-	59,339
Prepaid expenses	5,514	-	5,514	37,414	-	37,414
	24,065	-	24,065	542,757	-	542,757
Non-current						
Equipment	2,862	-	2,862	2,068	-	2,068
Mineral interests	489,822	-	489,822	5,777,664	-	5,777,664
Deposit on option to purchase	-	-	-	1,687,294	-	1,687,294
	$ 516,749	$ -	$ 516,749	$ 8,009,783	$ -	$ 8,009,783
Liabilities						
Current						
Accounts payable and accrued liabilities	$ 99,610	$ -	$ 99,610	$ 313,914	$ -	$ 313,914
Promissory note payable	34,401	-	34,401	-	-	-
Due to related party	35,411	-	35,411	38,318	-	38,318
	169,422	-	169,422	352,232	-	352,232
Shareholders' Equity						
Share capital	12,819,147	-	12,819,147	21,642,026	-	21,642,026
Share subscriptions receivable	-	-	-	(60,409)	-	(60,409)
Share subscriptions received	15,000	-	15,000	-	-	-
Reserves	2,329,347	-	2,329,347	3,273,451	5,976	3,279,427
Accumulated deficit	(14,816,167)	-	(14,816,167)	(17,197,517)	(5,976)	(17,203,493)
	347,327	-	347,327	7,657,551	-	7,657,551
	$ 516,749	$ -	$ 516,749	$ 8,009,783	$ -	$ 8,009,783

15. FIRST TIME ADOPTION OF IFRS (continued)

c) Reconciliation of Canadian GAAP to IFRS (continued)

The adoption of IFRS has had no impact in the net cash flows of the Company; accordingly, no reconciliation for the Statements of Cash Flows has been presented.

The changes in accounting policies resulting from the Company's adoption of IFRS had no significant impact on the financial statements for these comparative periods, other than an increase in the comprehensive loss for the year ended September 30, 2011 and a transfer within equity due to a change in the fair value of options issued:

		Year ended September 30, 2011
Comprehensive loss per Canadian GAAP	$	2,381,350
Adjustment on adoption of IFRS		5,976
Comprehensive loss per IFRS	$	2,387,326

d) Notes on reconciliation of Canadian GAAP to IFRS

Under Canadian GAAP, the Company measured share-based payments related to share purchase options at the fair value of the options granted using the Black-Scholes option pricing model and recognized this expense over the vesting period of the underlying options and agents warrants. For the purpose of accounting for share-based payment transactions, an individual is classified as an employee when the individual is consistently represented to be an employee under law. The fair value of the options granted to employees is measured at the date of grant. The fair value of options granted to contractors, consultants, and agents are measured on the date the services are completed. Forfeitures are recognized as they occur.

IFRS 2 requires the Company to measure share-based payments related to share purchase options granted to employees at the fair value of the options on the date of grant and to recognize such expense over the vesting period of the options using the graded method; however, for options granted to non-employees, IFRS requires that share-based payments be measured at the fair value of the services received unless the fair value cannot be reliably measured. For the purpose of accounting for share-based payment transactions, an individual is classified as an employee when the individual is an employee for legal or tax purposes (a direct employee) or provides services similar to those performed by a direct employee. This definition of an employee is broader than that previously applied by the Company; accordingly, certain contractors and consultants are classified as employees under IFRS.

No share purchase options were reclassified; however, share purchase options expensed over a vesting period were adjusted under IFRS using the graded method.

16. SUBSEQUENT EVENTS

On October 20, 2012, 3,268,332 warrants expired with an exercise price of $0.35 each.

On October 20, 2012, 275,875 agents warrants expired with an exercise price of $0.35 each and fair value of $0.17 each.

On October 28, 2012, 995,000 options expired with an exercise price of $0.25 each and fair value of $0.16 each.

On December 1, 2012, 200,000 options expired with an exercise price of $0.35 each and fair value of $0.26 each.

On December 15, 2012, 300,000 options expired with an exercise price of $0.35 each and fair value of $0.38 each.

On January 5, 2013, 220,000 options expired with an exercise price of $0.45 each and fair value of $0.32 each.