# THELON CAPITAL LTD.

**Condensed Interim Financial Statements**

**For the Nine Months Ended June 30, 2013**

**(Expressed in Canadian Dollars)**

**(Unaudited)**

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**Condensed Interim Financial Statements**
**(Expressed in Canadian Dollars)**
**(Unaudited)**

## Notice to Readers

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

The accompanying unaudited condensed interim financial statements of Thelon Capital Ltd. for the nine months ended June 30, 2013 have been prepared in accordance with International Accounting Standard 34 for Interim Financial Reporting under International Financial Reporting Standards. These condensed interim financial statements are the responsibility of the Company's management and have been approved by the Board of Directors. The Company's independent auditors have not performed an audit or review of these condensed interim financial statements.

## THELON CAPITAL LTD.

**Condensed Interim Statements of Financial Position**
**(Expressed in Canadian Dollars)**
**(Unaudited)**

| As at | (Unaudited) June 30, 2013 | (Audited) September 30, 2012 |
|---|---|---|
| **Assets** | | |
| **Current** | | |
| Cash | $ 2,890 | $ - |
| Amounts receivable | 35 | 444 |
| HST receivable | 2,711 | 11,304 |
| Advances to related parties (note 9) | - | 4,514 |
| Prepaid expenses | 23,000 | 25,600 |
| | 28,636 | 41,862 |
| **Non-current** | | |
| Equipment (note 4) | 1,192 | 1,499 |
| | $ 29,828 | $ 43,361 |
| **Liabilities** | | |
| **Current** | | |
| Cheques written in excess of bank balance | $ - | $ 9,099 |
| Accounts payable and accrued liabilities | 355,270 | 338,779 |
| Promissory notes payable (note 6) | 56,500 | 10,000 |
| Advances from related parties (note 9) | 276,648 | 91,260 |
| | 688,418 | 449,138 |
| **Shareholders' Equity** | | |
| Share capital (note 7) | 21,759,624 | 21,759,624 |
| Share subscriptions receivable | (99,136) | (122,909) |
| Reserves | 36,634 | 3,182,142 |
| Accumulated deficit | (22,355,712) | (25,224,634) |
| | (658,590) | (405,777) |
| | $ 29,828 | $ 43,361 |

**Nature and continuance of operations** (note 1)

These condensed interim financial statements were authorized for issue by the Board of Directors on August 15, 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 condensed interim financial statements.

## THELON CAPITAL LTD.

### Condensed Interim Statements of Comprehensive Loss
### (Expressed in Canadian Dollars)
### (Unaudited)

| | | (Unaudited) For the three months ended June 30, 2013 | | (Unaudited) For the three months ended June 30, 2012 | | (Unaudited) For the nine months ended June 30, 2013 | | (Unaudited) For the nine months ended June 30, 2012 |
|---|---|---|---|---|---|---|---|---|
| **Administrative expenses** | | | | | | | | |
| Advertising and promotion | **$** | **8,161** | $ | 11,141 | **$** | **35,098** | $ | 53,609 |
| Bank charges and interest | | **2,769** | | 573 | | **12,116** | | 1,370 |
| Consulting (note 9) | | **31,500** | | 50,000 | | **94,500** | | 162,900 |
| Depreciation | | **102** | | 143 | | **306** | | 427 |
| Director fees (note 9) | | **6,000** | | 6,000 | | **18,000** | | 18,000 |
| Legal and accounting | | **3,320** | | 4,863 | | **34,622** | | 47,702 |
| Office and administration (note 9) | | **12,413** | | 15,233 | | **40,525** | | 52,035 |
| Share-based compensation (note 8) | | **-** | | 45 | | **-** | | 6,744 |
| Shareholder relations | | **-** | | 12,254 | | **-** | | 48,415 |
| Telephone | | **2,248** | | 3,490 | | **10,542** | | 11,426 |
| Transfer agent and exchange fees | | **1,764** | | 500 | | **12,569** | | 10,427 |
| Travel | | **8,447** | | 2,035 | | **11,693** | | 41,519 |
| **Loss before other items** | | **(76,724)** | | (106,277) | | **(269,971)** | | (454,574) |
| **Other items** | | | | | | | | |
| Foreign exchange gain (loss) | | **(5,761)** | | (1,870) | | **(6,777)** | | 3,147 |
| Other income | | **53** | | 54 | | **162** | | 166 |
| | | **(5,708)** | | (1,816) | | **(6,615)** | | 3,313 |
| **Net and comprehensive loss for the period** | **$** | **(82,432)** | $ | (108,093) | **$** | **(276,586)** | $ | (451,261) |
| **Basic and diluted loss per share** | **$** | **(0.00)** | $ | (0.00) | **$** | **(0.01)** | $ | (0.01) |
| **Weighted average number of shares outstanding** | | **42,840,431** | | 42,840,431 | | **42,840,431** | | 42,792,723 |

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

**THELON CAPITAL LTD.**

**Condensed Interim Statements of Changes in Equity**
**(Expressed in Canadian Dollars)**
**(Unaudited)**

| | | | | Reserves | | | | |
|---|---|---|---|---|---|---|---|---|
| | Number of Shares | Share Capital | Share Subscriptions Receivable | Share-Based Payment Reserve | Warrant Reserve | Total | Deficit | (Unaudited) Total Equity |
| 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) |
| Warrant and agents warrants expired | - | - | - | - | (440,078) | (440,078) | 440,078 | - |
| Share-based compensation expired | - | - | - | (2,705,430) | - | (2,705,430) | 2,705,430 | - |
| Subscription received | | | 23,773 | | | | - | 23,773 |
| Loss for the period | - | - | - | - | - | - | (276,586) | (276,586) |
| **Balance at June 30, 2013** | **42,840,431** | **$ 21,759,624** | **$ (99,136)** | **$ 36,634** | **$ -** | **$ 36,634** | **$ (22,355,712)** | **$ (658,590)** |
| Balance at September 30, 2011 | 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 |
| Reallocation on agents warrants exercised | - | 2,098 | - | - | (2,098) | (2,098) | - | - |
| Share-based compensation | - | - | - | 6,744 | - | 6,744 | - | 6,744 |
| Loss for the period | - | - | - | - | - | - | (451,261) | (451,261) |
| Balance at June 30, 2012 | 42,840,431 | $ 21,759,624 | $ (122,909) | $ 2,843,995 | $ 440,078 | $ 3,284,073 | $ (17,654,754) | $ 7,266,034 |

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

## THELON CAPITAL LTD.

### Condensed Interim Statements of Cash Flows
### (Expressed in Canadian Dollars)
### (Unaudited)

| | (Unaudited) For the three months ended June 30, 2013 | (Unaudited) For the three months ended June 30, 2012 | (Unaudited) For the nine months ended June 30, 2013 | (Unaudited) For the nine months ended June 30, 2012 |
|---|---|---|---|---|
| **Cash provided by (used for)** | | | | |
| **Operating activities** | | | | |
| Net loss for the period | $ (82,432) | $ (108,093) | $ (276,586) | $ (451,261) |
| Add items not affecting cash | | | | |
| Depreciation | 102 | 143 | 306 | 427 |
| Foreign exchange gain (loss) | 5,761 | 1,870 | 6,777 | (3,147) |
| Share-based compensation | - | 45 | - | 6,744 |
| | (76,569) | (106,035) | (269,503) | (447,237) |
| Net change in non-cash working capital | (27,620) | 39,003 | 28,093 | (13,725) |
| | (104,189) | (67,032) | (241,410) | (460,962) |
| **Financing activities** | | | | |
| Advances from related parties | 91,722 | 47,977 | 185,389 | 56,216 |
| Issuance of promissory notes payable | 2,200 | - | 46,500 | - |
| Issuance of shares for cash | - | - | - | 53,000 |
| Share subscriptions received | 18,500 | - | 23,773 | - |
| | 112,422 | 47,977 | 255,662 | 109,216 |
| **Investing activities** | | | | |
| Acquisition of mineral interests | - | - | - | (42,156) |
| Advances to related parties | - | - | 4,514 | - |
| Deposit on option to purchase | - | - | - | (37,767) |
| | - | - | 4,514 | (79,923) |
| **Effect of foreign exchange translation on cash** | (5,761) | (1,870) | (6,777) | 3,147 |
| **Net increase (decrease) in cash** | 2,472 | (20,925) | 11,989 | (428,522) |
| **Cash, beginning of period** | 418 | 20,953 | (9,099) | 428,550 |
| **Cash, end of period** | $ 2,890 | $ 28 | $ 2,890 | $ 28 |
| **Supplemental cash flow disclosure** | | | | |
| Interest received (paid) | $ 195 | $ 54 | $ 195 | $ 166 |
| Income taxes paid | $ - | $ - | $ - | $ - |

**Supplemental cash flow disclosure** (note 11)

The accompanying notes are an integral part of these condensed interim 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 condensed interim 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 condensed interim 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 12c.

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 statements of financial position. Since the outcome of these matters cannot be predicted at this time, these condensed interim 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) Basis of presentation

These condensed interim financial statements have been prepared in accordance with International Accounting Standard 23, *Interim Financial Reporting* ("IAS34") using accounting policies consistent with International Financial Reporting Standards ("IFRS").

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

### b) 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.

### c) Significant accounting judgments and estimates

The preparation of the condensed interim 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 condensed interim financial statements also requires management to exercise judgment in the process of applying the accounting policies.

#### 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 nine months ended June 30, 2013, impairments of non-financial assets were Nil (June 30, 2012 – Nil).

**2. BASIS OF PREPARATION** (continued)

**c) Significant accounting judgments and estimates** (continued)

**i) Critical accounting estimates** (continued)

**(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 June 30, 2013 was $1,192 (September 30, 2012 - $1,499).

**(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 nine months ended June 30, 2013, the Company recognized share-based compensation expense of Nil (June 30, 2012 - $6,744).

**ii) Critical judgments used in applying accounting policies**

In the preparation of these condensed interim 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 condensed interim 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 June 30, 2013 and September 30, 2012, management had determined that no reclassification of mineral interests was required.

**(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 audited annual financial statements.

## 3. SIGNIFICANT ACCOUNTING POLICIES

### a) Financial instruments

Financial assets and financial liabilities are recognized on the statements 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.

**(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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### a) Financial instruments (continued)

#### i) Financial assets (continued)

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.

**(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 notes 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.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**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.

**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.

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

### d) Property, plant, and equipment (continued)

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.

### 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.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**f) Share capital** (continued)

**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.

**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.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**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.

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.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

**k) Income taxes** (continued)

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.

**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.

**3. SIGNIFICANT ACCOUNTING POLICIES** (continued)

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

**ii) IFRS 10 *Consolidated Financial Statements*** (continued)

IFRS 10 replaces *Standing Interpretations Committee 12 Consolidation – Special Purpose Entities* (SIC 12) and IAS 27 *Consolidated and Separate Condensed Interim 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.

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.

**(Expressed in Canadian Dollars)**

## 3. SIGNIFICANT ACCOUNTING POLICIES (continued)

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

#### v) Other (continued)

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 September 30, 2011 | $ 9,068 | $ 22,357 | $ 31,425 |
| Additions | - | - | - |
| Balance at September 30, 2012 | 9,068 | 22,357 | 31,425 |
| Additions | - | - | - |
| **Balance at June 30, 2013** | **$ 9,068** | **$ 22,357** | **$ 31,425** |
| **Accumulated Depreciation** | | | |
| Balance at September 30, 2011 | $ 8,553 | $ 20,804 | $ 29,357 |
| Depreciation for the period | 103 | 466 | 569 |
| Balance at September 30, 2012 | 8,656 | 21,270 | 29,926 |
| Depreciation for the period | 62 | 245 | 307 |
| **Balance at June 30, 2013** | **$ 8,718** | **$ 21,515** | **$ 30,233** |
| **Carrying Amounts** | | | |
| At September 30, 2012 | $ 412 | $ 1,087 | $ 1,499 |
| **At June 30, 2013** | **$ 350** | **$ 842** | **$ 1,192** |

**(Expressed in Canadian Dollars)**

## 5. MINERAL INTERESTS

| | | Jellico Project (US) |
|---|---|---|
| Balance at September 30, 2011 | $ | 5,777,664 |
| Acquisition costs | | 42,156 |
| Impairment of mineral interest | | (5,819,820) |
| **Balance at September 30, 2012 and June 30, 2013** | **$** | **-** |

### a) 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 was 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 recorded an impairment of $5,819,820 against the accumulated costs to reflect the uncertainty around completion of the acquisition.

## 6. PROMISSORY NOTES PAYABLE

The Company issued a promissory note in the principal amount of $25,000 on September 12, 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. The accrued interest of $4,788 (September 30, 2012 - $123) is included in accounts payable and accrued liabilities.

**(Expressed in Canadian Dollars)**

## 6. PROMISSORY NOTES PAYABLE (continued)

The Company issued a promissory note in the principal amount of $31,500 on January 11, 2013. The interest rate is 25% per annum and due on December 15, 2013. Accrued interest of $2,434 (September 30, 2012 - Nil) is included in accounts payable and accrued liabilities.

## 7. SHARE CAPITAL

### a) Common shares

**Authorized:**

Unlimited number of common shares without par value

**Issued:**

| | Number | | Issued Price | | Amount |
|---|---|---|---|---|---|
| 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 |
| Reallocation from warrants | - | $ | - | | 2,098 |
| **Balance at September 30, 2012 and June 30, 2013** | **42,840,431** | | | **$** | **21,759,624** |

### b) Escrow shares

Currently 4,167 shares (September 30, 2012 – 4,167) are held in escrow.

### c) Warrants outstanding

| | Number of Warrants | | Weighted Average Exercise Price |
|---|---|---|---|
| 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 |
| Warrants expired | (13,852,554) | $ | 0.85 |
| **Balance at June 30, 2013** | **-** | **$** | **-** |

**(Expressed in Canadian Dollars)**

## 7. SHARE CAPITAL (continued)

### d) Agents warrants outstanding

| | Number of Warrants | | Weighted Average Exercise Price |
|---|---|---|---|
| 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 |
| Agent warrants expired | (1,016,770) | $ | 0.82 |
| **Balance at June 30, 2013** | **-** | **$** | **-** |

## 8. 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 June 30, 2013:

| | Number of Options | | Weighted Average Exercise Price |
|---|---|---|---|
| Balance at September 30, 2011 | 3,162,500 | $ | 0.35 |
| Options expired | (622,500) | $ | 0.20 |
| Balance at September 30, 2012 | 2,540,000 | $ | 0.35 |
| Options expired | (2,340,000) | $ | 0.34 |
| **Balance at June 30, 2013** | **200,000** | **$** | **0.38** |

| Grant Date | Expiry Date | | Exercise Price | Number of Options Outstanding | Number of Options Exercisable |
|---|---|---|---|---|---|
| September 14, 2011 | September 14, 2013 | $ | 0.38 | 200,000 | 200,000 |

**(Expressed in Canadian Dollars)**

## 9. 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 periods ended June 30, 2013 and 2012:

| | Consulting | Director Fees | Office and Administration | June 30, 2013 Total |
|---|---|---|---|---|
| BUA Capital Management Ltd. | $ 67,500 | $ - | $ - | $ 67,500 |
| BUA Group Holdings Ltd. | - | - | 36,900 | 36,900 |
| Geoff Watson | - | 9,000 | - | 9,000 |
| GRW Inc. (formerly Complete Communications Inc.) | 27,000 | - | - | 27,000 |
| Jason Walsh | - | 9,000 | - | 9,000 |
| | **$ 94,500** | **$ 18,000** | **$ 36,900** | **$ 149,400** |

| | Consulting | Director Fees | Office and Administration | June 30, 2012 Total |
|---|---|---|---|---|
| BUA Capital Management Ltd. | $ 58,500 | $ - | $ - | $ 58,500 |
| BUA Group Holdings Ltd. | - | - | 47,260 | 47,260 |
| Geoff Watson | - | 9,000 | - | 9,000 |
| GRW Inc. (formerly Complete Communications Inc.) | 27,000 | - | - | 27,000 |
| Jason Walsh | - | 9,000 | - | 9,000 |
| | $ 85,500 | $ 18,000 | $ 47,260 | $ 150,760 |

BUA Capital Management Ltd. provides consulting services to the Company and BUA Group Holdings Ltd. provides administration services to the Company; both are private companies controlled by the President of the Company, Jason Walsh. At June 30, 2013, the Company owed $77,344 (September 30, 2012 - $8,348) to BUA Capital Management Ltd. and $6,792 (September 30, 2012 - $4,514) to BUA Group Holdings Ltd. which are included in amounts due to related parties.

GRW Inc. (formerly Complete Communications Inc.) provides consulting services to the Company is a private company controlled by the Chief Financial Officer, Geoff Watson. At June 30, 2013, the Company owed GRW Inc. $19,451 (September 30, 2012 – Nil) which is included in amounts due to related parties.

At June 30, 2013, the Company owed Jason Walsh $28,867 (September 30, 2012 – $26,504) which is included in the amounts due to related parties. Mr. Walsh is also owed $9,000 (September 30, 2012 – Nil) for unpaid director fees which is included in amounts due to related parties.

At June 30, 2013, the Company owed Geoff Watson $11,000 (September 30, 2012 - $2,000) for unpaid director fees which is included in amounts due to related parties.

At June 30, 2013, the Company owed William Cousins, a director, $3,712 (September 30, 2012 – Nil) which is included in amounts due to related parties.

**(Expressed in Canadian Dollars)**

## 9. RELATED PARTY TRANSACTIONS (continued)

At June 30, 2013, the Company owed $74,360 (September 30, 2012 - $61,000) to Thelon Diamond Company Limited, a private company with common directors controlled by Jason Walsh.; $21,749 (September 30, 2012 – Nil) to Zadar Ventures Ltd., a public company with common directors; $20,000 (September 30, 2012 – Nil) to International Ranger Corp., a public company with common directors; and $4,373 (September 30, 2012 – Nil) to Scout Exploration Inc., a public company with common directors.

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.

## 10. 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 | $ - | $ - | $ - |
| Deposit on option to purchase | - | - | - |
| Other assets | 43,361 | - | 43,361 |
| Balance at September 30, 2012 | $ 43,361 | $ - | $ 43,361 |
| Mineral interests | $ - | $ - | $ - |
| Deposit on option to purchase | - | - | - |
| Other assets | 29,828 | - | 29,828 |
| **Balance at June 30, 2013** | **$ 29,828** | **$ -** | **$ 29,828** |
| Loss for the nine months ended June 30, 2012 | $ (451,261) | $ - | $ (451,261) |
| **Loss for the nine months ended June 30, 2013** | **$ (276,586)** | **$ -** | **$ (276,586)** |

(Expressed in Canadian Dollars)

## 11. SUPPLEMENTAL CASH FLOW INFORMATION

Non-cash financing and investing activities during the nine months ended June 30, 2013 and 2012 were as follows:

| | | **June 30, 2013** | | June 30, 2012 |
|---|---|---|---|---|
| Fair value of agent warrants exercised | **$** | **-** | $ | 2,098 |
| Fair value of stock options expired | **$** | **2,705,430** | $ | - |
| Fair value of stock options granted | **$** | **-** | $ | 6,744 |
| Fair value of warrants and agent warrants expired | **$** | **440,078** | $ | - |
| Income taxes paid | **$** | **-** | $ | - |

## 12. 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.

**12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT** (continued)

**c) Financial risk management** (continued)

**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 debt or equity financing. Cash on hand at June 30, 2013 and expected cash flows for the next 12 months are not sufficient to fund the Company's ongoing operational needs. 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.

**(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 June 30, 2013 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.

**(Expressed in Canadian Dollars)**

## 12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

### c) Financial risk management (continued)

#### iii) Market risk (continued)

**(b) Foreign currency risk** (continued)

| | | June 30, 2013 USD | | September 30, 2012 USD |
|---|---|---|---|---|
| Accounts payable and accrued liabilities | $ | 96,054 | $ | 96,054 |

At June 30, 2013, financial instruments were converted at a rate of $1.00 Canadian to US$1.0512.

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 of the Jellico Project, a 5% change in the absolute rate of exchange for US dollars would significantly affect its cash position.

**(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.