MONARCH ENERGY LIMITED

CONSOLIDATED FINANCIAL STATEMENTS (PREPARED BY MANAGEMENT)

FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2012 AND 2011

INDEX

Notice to Reader – From Monarch Energy Limited

The unaudited consolidated financial statements of Monarch Energy Limited (the "Company") including the accompanying consolidated statements of financial position as at December 31, 2012, September 30, 2012 and the consolidated statements of operations and comprehensive loss, changes in shareholders' equity and cash flows for the three months period ended December 31, 2012 and 2011 are the responsibility of the Company's management. The unaudited consolidated financial statements have been prepared by management and include the selection of appropriate accounting principles, judgements and estimates necessary to prepare these financial statements in accordance with International Financial Reporting Standards for consolidated financial statements.

The unaudited consolidated financial statements as at and for the three month period ended December 31, 2012 have not been reviewed by the Company's auditors.

MONARCH ENERGY LIMITED
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
AS AT
(Expressed in Canadian dollars)

		December 31, 2012		September 30, 2012		October 1, 2011
ASSETS						
Current						
Cash and cash equivalents	**$**	**20,499**	$	27,601	$	428,926
Amounts receivable		**22,849**		20,240		11,310
Due from related party (Note 8)		**18,247**		28,747		28,747
		61,595		76,588		478,983
Property and equipment (Note 4)		**947**		1,012		1,997
Reclamation bonds		**28,402**		28,402		27,634
	$	**90,944**	$	106,002	$	875,614
LIABILITIES						
Current						
Accounts payable and accrued liabilities	**$**	**43,634**	$	37,405	$	1,592,369
Due to related parties (Notes 8)		**28,125**		14,675		103,008
		71,759		52,080		1,695,377
SHAREHOLDERS' EQUITY (DEFICIENCY)						
Capital stock (Note 7)		**19,466,341**		19,466,341		15,943,341
Contributed surplus		**1,636,009**		1,636,009		1,271,009
Deficit		**(21,083,165)**		(21,048,428)		(18,487,792)
		19,185		53,922		(1,273,442)
	$	**90,944**	$	106,002	$	479,867

NATURE OPERATIONS AND GOING CONCERN, (Note 1)

Approved on behalf of the board:

"George Langdon" President and Director
"Michael Turko" Director

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

MONARCH ENERGY LIMITED

CONSOLIDATED STATEMENTS OF OPERATIONS AND COMPREHENSIVE INCOME (LOSS)
FOR THE THREE MONTH PERIODS ENDED DECEMBER 31,
(Expressed in Canadian dollars)

	Three Months			
		2012		2011
Revenue				
Petroleum and natural gas sales	$	3,348	$	19,300
Direct costs				
Production expenses		3,385		697
		(37)		18,603
Expenses				
Consulting fees (Note 8)		18,000		18,000
Depreciation		65		97
Foreign exchange loss		-		2
Interest		-		438
Management fees (Note 8)		10,500		10,500
Office, general and administrative		3,484		12,209
Professional fees		274		7,613
Transfer agent and filing fees		2,384		1,724
Loss from operations		(34,707)		(50,583)
Interest income		7		-
Net comprehensive income (loss) for the year	$	(34,737)	$	(31,980)
Income (loss) per share				
Basic and fully diluted	$	0.00	$	0.00
Weighted average number of common shares outstanding, basic and diluted		101,851,860		101,851,860

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

MONARCH ENERGY LIMITED

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY (DEFICIENCY)

FOR THE THREE MONTH PERIODS ENDED DECEMBER 31, 2012 and 2011

(Expressed in Canadian dollars)

	Share capital				
	Number of shares	Amount	Contributed Surplus	Deficit	Total
Balance, October 1, 2011	101,851,860	$ 19,466,341	$ 1,636,009	$ (21,156,506)	$ (54,156)
Net loss for the period	-	-	-	(31,980)	(31,980)
Balance, December 31, 2011	101,851,860	$ 19,466,341	$ 1,636,009	$ (21,188,486)	$ (86,136)
Balance, October 1, 2012	101,851,860	$ 19,466,341	$ 1,636,009	$ (21,048,428)	$ 53,922
Net loss for the period	-	-	-	(34,737)	(34,737)
Balance, December 31, 2012	101,851,860	$ 19,466,341	$ 1,636,009	$ (21,083,165)	$ 19,185

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

MONARCH ENERGY LIMITED
CONSOLIDATED STATEMENTS OF CASH FLOWS
FOR THE THREE MONTH PERIODS ENDED DECEMBER 31,
(Expressed in Canadian dollars)

	Three Months	
	2012	2011
Cash flows from operating activities		
Net income (loss) for the period	**$ (34,737)**	$ (31,980)
Adjustments not effecting cash:		
Interest on future reclamation provision	**-**	438
Depreciation	**65**	97
Changes in non-cash operation working capital		
Amounts receivable	**(2,609)**	(14,231)
Prepaid expenses	**-**	5,470
Accounts payable and accrued liabilities	**6,229**	38,029
Due to and from related parties	**23,950**	-
Cash flows used in operating activities	**(7,102)**	(2,177)
Cash flows from investing activities		
Additions to exploration and evaluation asset	**-**	(3,282)
Cash flows provided by (used in) investing activities	**-**	(3,282)
Net increase (decrease) in cash and cash equivalents	**(7,102)**	(5,459)
Cash and cash equivalents, beginning of period	**27,601**	11,947
Cash and cash equivalents, end of period	**$ 20,499**	$ 6,488

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

1. NATURE OF OPERATIONS AND GOING CONCERN

Monarch Energy Limited (the "Company") was incorporated in British Columbia and is engaged in the exploration and evaluation of mineral properties. The principal business address of the Company is 65 Queen Street West, Toronto, Ontario, M5H 2M5.

The current market conditions and volatility increase the uncertainty of the Company's ability to continue as a going concern given the need to both curtail expenditures and to raise additional funds. The Company is experiencing, and has experienced, negative operating cash flows. The Company will continue to search for new or alternate sources of financing but anticipates that the current market conditions may impact the ability to source such funds. These material uncertainties may cast significant doubt on the Company's ability to continue as a going concern.

There can be no assurance that the Company will be able to continue to raise funds in which case the Company may be unable to meet its obligations. Should the Company be unable to realize on its assets and discharge its liabilities in the normal course of business, the net realizable value of its assets may be materially less than the amounts recorded on the consolidated statement of financial position.

2. BASIS OF PRESENTATION

Statement of Compliance

The consolidated financial statements have been prepared in accordance with International Financial Reporting Standards("IFRS") as issued by the International Accounting Standards Board ("IASB")

The consolidated financial statements for the three months ended December 31, 2012 (including comparatives)were approved and authorized for issue by the board of directors on February 28, 2013

The accounting policies applied in preparing the interim consolidated financial statements for the three months ended December 31, 2012 and December 31, 2011 are set out in Note 3, and are the same as those applied in preparing the Company's annual consolidated financial statements.

Principles of Consolidation

These consolidated financial statements included the accounts of the Company and its wholly owned subsidiaries, Monoil Limited and Monoil UK Limited until January 6, 2011, when the Company sold these subsidiaries.

Basis of Measurement

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

Functional and Presentation Currency

The consolidated financial statements are presented in Canadian dollars, which is also the Company's functional currency.

Use of Estimates and Judgement

The preparation of these consolidated financial statements in conformity with IFRS requires that management make estimates and assumptions about future events that affect the amounts reported in the consolidated financial statements and related notes to the consolidated financial statements. Actual results may differ from those estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

(i) Critical accounting estimates

Critical accounting estimates are estimates and assumptions made by management that may result in a material adjustment to the carrying amount of assets and liabilities within the next financial year and are, but are not limited to, the following:

Share-based compensation

The fair value of stock options issued are subject to the limitation of the Black-Scholes option pricing model that incorporates market data and involves uncertainty in estimates used by management in the assumptions. Because the Black-Scholes option pricing model requires the input of highly subjective assumptions, including the volatility of share prices, changes in subjective input assumptions can materially affect the fair value estimate.

Recovery of deferred tax assets

Judgment is required in determining whether deferred tax assets are recognized in the statement of financial position. Deferred tax assets, including those arising from unutilized tax losses, require management to assess the likelihood that the Company will generate taxable earnings in future periods, in order to utilize recognized deferred tax assets. Estimates of future taxable income are based on forecast cash flows from operations and the application of existing tax laws in each jurisdiction. To the extent that future cash flows and taxable income differ significantly from estimates, the ability of the Company to realize the net deferred tax assets recorded at the date of the statement of financial position could be impacted.

Additionally, future changes in tax laws in the jurisdictions in which the Company operates could limit the ability of the Company to obtain tax deductions in future periods.

The Company has not recorded any deferred tax assets.

Recoverability of exploration and evaluation assets

The Company is in the process of exploring its exploration and evaluation assets and has not yet determined whether the properties contain mineral reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets are dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future production or proceeds from the disposition thereof.

(ii) Critical accounting judgments

Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the consolidated financial statements are, but are not limited to, the following:

Determination of functional currency

In accordance with IAS 21, The Effects of Changes in Foreign Exchange Rates, management has determined that the functional currency of the Company is the Canadian dollar.

Evaluation of going concern

The preparation of the consolidated financial statements requires management to make judgments regarding the going concern of the Company as previously discussed in Note 1.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting polices set out below have been applied consistently to all periods presented in these consolidated financial statements.

Exploration and Evaluation Assets

Pre-exploration costs are expensed as incurred. Costs to acquire exploration and evaluation assets are capitalized as incurred. Costs related to the exploration and evaluation of mineral rights are capitalized as incurred. The Company considers mineral rights to be tangible assets and accordingly, the Company capitalizes certain costs related to the acquisition of mineral rights.

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost of the exploration and evaluation assets. If payments received exceed the capitalized cost of the exploration and evaluation asset, the excess is recognized as income in the year received. The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

Impairment

At each financial position reporting date the carrying amounts of the Company's long-lived 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. The recoverable amount is the higher of fair value less costs to sell and value in use, which is the present value of future cash flows expected to be derived from the asset. If the recoverable amount of an asset 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 profit or loss for the period.

For the purposes of impairment testing, exploration and evaluation assets are allocated to cash-generating units to which the exploration activity relates. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash-generating unit to which the asset belongs. 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 profit or loss.

Property and Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses.

The cost of an item of equipment 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. Depreciation is provided at rates calculated to write off the cost of equipment, less its estimated residual value, using the declining balance method at the following rates per annum:

Computer equipment	45%
Office equipment	20%

Share-based Payment

The Company accounts for share-based payment using the fair value method. Under this method, compensation expense is measured at fair value on the date of grant using the Black-Scholes option pricing model, and is recognized as an expense or capitalized, depending on the nature of the grant, with a corresponding increase in equity, over the period that the employees earn the options. The amount recognized as an expense is adjusted to reflect the number of share options expected to vest. The Black-Scholes option pricing model requires the input of subjective assumptions, including the expected term of the option and stock price volatility.

Foreign Currency Translation

The Company's functional and presentation currency is the Canadian dollar. Foreign currency transactions are initially recorded in the functional currency at the transaction date exchange rate. At closing date, monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the closing date exchange rate, and non-monetary assets and liabilities at the historical rates. Exchange differences arising on the settlement of monetary items or on translating monetary items at rates different from those at which they were translated on initial recognition during the period or in previous financial statements are recognized in profit or loss.

Financial Instruments

All financial instruments are initially recognized at fair value on the statement of financial position. The Company has classified each financial instrument into one of the following categories: (1) financial assets or liabilities at fair value through profit or loss ("FVTPL"), (2) loans and receivables, (3) financial assets available-for-sale, (4) financial assets held-to maturity, and (5) other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in net earnings. Financial assets "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (loss), net of tax.

Financial assets "held-to-maturity", "loans and receivables", and "other financial liabilities" are subsequently measured at amortized cost using the effective interest method. The Company's financial assets and liabilities are recorded and measured as follows:

Asset or Liability	Category	Measurement
Cash and cash equivalents	FVTPL	Fair value
Amounts receivables	Loans and receivables	Amortized cost
Due from related party	Loans and receivables	Amortized cost
Reclamation bonds	Held to maturity	Amortized cost
Accounts payables and accrued liabilities	Other liabilities	Amortized cost
Due to related parties	Other liabilities	Amortized cost

The Company classifies the fair value of financial instruments according to the following hierarchy based on the amount of observable inputs used to value the instrument.

Level 1 – Quoted prices are available in active markets for identical assets or liabilities as of the reporting date. Active markets are those in which transactions occur in sufficient frequency and volume to provide pricing information on an ongoing basis.

Level 2 – Pricing inputs are other than quoted prices in active markets included in Level 1. Prices in Level 2 are either directly or indirectly observable as of the reporting date. Level 2 valuations are based on inputs, including quoted forward prices for commodities, time value and volatility factors, which can be substantially observed or corroborated in the marketplace.

Level 3 – Valuations in this level are those with inputs for the asset or liability that are not based on observable market data.

Cash and cash equivalents are measured at fair value using Level 1 inputs.

Revenue Recognition

Interest revenue is recognized when it is probable that the economic benefits will flow to the Company and the amount of revenue can be measured reliably. Interest revenue is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's net carrying amount on initial recognition.

Revenue from oil and gas operations is recognized when oil and natural gas are shipped, title passes and collection of the sale is reasonably assured.

Cash and Cash Equivalents

Cash and cash equivalents consists of highly liquid investments that are readily convertible to known amounts of cash subject to significant risk of changes in value. As at December 31, 2012 and September 30, 2012, the Company has no cash equivalents on hand.

Petroleum and Natural Gas Properties

All costs directly associated with the development of oil and natural gas reserves are capitalized on an area-by-area basis. Development costs include expenditures for areas where technical feasibility and commercial viability has been determined. These costs include proved property acquisitions, development drilling, completion, gathering and infrastructure costs and transfers of exploration and evaluation assets.

Costs accumulated within each area are depleted using the unit-of-production method based on proved plus probable reserves using estimated future prices and costs. Costs subject to depletion include estimated future costs to be incurred in developing proved and probable reserves.

For divestitures of properties, a gain or loss is recognized in net earnings. Exchanges of properties are measured at fair value, unless the transaction lacks commercial substance or fair value cannot be reliably measured. Where the exchange is measured at fair value, a gain or loss is recognized in net earnings.

Income Taxes

Income tax on profit or loss for the year comprises of current and deferred tax. Current tax is the expected tax paid or payable on the taxable income for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustment to tax paid or payable in respect of previous years.

Deferred tax is recorded using the 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.

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. Deferred tax assets are reduced to the extent that it is no longer probable that the related tax benefit will be realized. The effect on deferred income tax assets and liabilities of a change in income tax rates is recognized in the period that includes the date of the enactment or substantive enactment of the change. Deferred tax assets and liabilities are presented separately except where there is a right of set-off within fiscal jurisdictions.

Basic and diluted income (loss) per share

Basic income (loss) per share has been calculated using the weighted average number of common shares outstanding during the year.

Diluted income (loss) per share has been calculated using the weighted average number of common shares that would have been outstanding during the respective period had all of the stock options and warrants outstanding at year end having a dilutive effect been converted into shares at the beginning of the year and the proceeds used to repurchase the Company's common shares at the average market price for the year. If these computations prove to be anti-dilutive, diluted income (loss) per share is the same as basic income (loss) per share.

Comprehensive income (loss)

Comprehensive income (loss) consists of net income (loss) and other comprehensive income (loss) and represents the change in shareholders' equity which results from transactions and events from sources other than the Company's shareholders. For the years presented, comprehensive income (loss) is the same as net income (loss).

Future Accounting Policy Changes

Financial Instruments IFRS 9, "Financial Instruments" ("IFRS 9") was issued by the IASB on November 12, 2009 and will replace IAS 39. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple classification options in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

Amendments to IFRS 7, Financial Instruments: Disclosures are effective for annual periods beginning on or after January 1, 2013 and introduce enhanced disclosure around transfer of financial assets and associated risks. These amendments are not anticipated to impact the disclosures made by the Company.

Amendments to IAS 1, Presentation of Financial Statements (effective for annual periods beginning on or after July 1, 2012) require that elements of other comprehensive income that may subsequently be reclassified through profit and loss be differentiated from those items that will not be reclassified.

IFRS 10 Consolidated Financial Statements, IFRS 11 Joint Arrangements, IFRS 12 Disclosure of Interests in Other Entities, and consequential revisions to IAS 27 Separate Financial Statements and IAS 28 Investments in Associates and Joint Ventures (all effective January 1, 2013) provide revised guidance on the accounting treatment and associated disclosure requirements for joint arrangements and associates, and a revised definition of 'control' for identifying entities which are to be consolidated.

(Expressed in Canadian dollars)

IFRS 13 Fair Value Measurement (effective January 1, 2013) provides new guidance on fair value measurement and disclosure requirements.

Amendments to IAS 32, Financial Instruments: Presentation, are effective for annual periods beginning on or after January 1, 2014. This provides for amendments relating to offsetting financial assets and financial liabilities

The Company is currently evaluating the impact of these new and amended standards on its consolidated financial statements.

4. PROPERTY AND EQUIPMENT

	Computer equipment	Office equipment	Total
Cost			
Balance, October 1 , 2011	$ 5,264	$ 2,679	$ 7,943
Balance, September 31, 2012	$ 5,264	$ 2,679	$ 7,943
Balance, December 31, 2012	$ 5,264	$ 2,679	$ 7,943
Accumulated Depreciation			
Balance, October 1, 2011	$ 4,833	$ 1,710	$ 6,543
Depreciation for the period	194	194	388
Balance, September 31, 2012	$ 5,027	$ 1,904	$ 6,931
Depreciation for the period	26	39	65
Balance, Decmeber 31, 2012	$ 5,053	$ 1,943	$ 6,996
Carrying Amounts			
As at October 1, 2011	$ 431	$ 969	$ 1,400
As at September 2012	$ 237	$ 775	$ 1,012
Balance, Decmeber 31, 2012	$ 211	$ 736	$ 947

5. EXPLORATION AND EVALUATION ASSETS

6. PETROLEUM AND NATURAL GAS PROPERTIES

	Virginia Hills
Balance, October 1, 2010	$ -
Acquisition Costs	-
Additions:	
Geological, geophysical and land	268,985
Retirement provision	37,352
Depletion	(306,337)
Total Additions	-
Balance, September 30, 2011, 2012 and December 31, 2012	$ -

During the year ended September 30, 2012, the Company sold, to an arms length purchaser, the Virginia Hills property asset in Alberta for the sum of $550,000. This asset was depleted to $nil in a previous year. As a result the entire proceeds of $550,000 has been recorded as a gain on sale of the asset. Of this amount, $500,219 has recorded in cash, the remaining $49,781 was offset against a payable due from the Company.

(Expressed in Canadian dollars)

7. CAPITAL STOCK

(a) Common shares

Authorized

The authorized capital stock of the Company consists of an unlimited number of common shares.

No shares were issued during the period ended December 31, 2012.

(b) Stock option plan and share-based compensation

The Company has a stock option plan under which it is authorized to grant options to directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option equals the market price, minimum price, or a discounted price of the Company's shares as calculated on the date of grant. The options can be granted for a maximum term of 5 years. Options issued to consultants vest at 25% every three months. Options to directors and employees fully vest immediately upon granting but the common shares on exercise are subject to a four month hold period from the date of exercise.

The Company measures share-based compensation costs using the fair value-based method for employee and non-employee stock options. Compensation costs have been determined based on the fair value of the options at the grant date using the Black-Scholes option-pricing model. Compensation expense of $Nil was recorded in the statement of operations during the period ended December 31, 2012 (September 30, 2012 - $Nil).

The following table summarizes information concerning the Company's stock options outstanding as at December 31, 2012:

	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life
Outstanding and exercisable - October 1, 2011	1,614,286	$ 0.47	
Granted	5,300,000	0.10	
Expired or cancelled	(1,614,286)	0.47	
Outstanding and exercisable - September 30, 2012 and December 31, 2012	**5,300,000**	**$ 0.10**	**3.03**

No stock options were granted during the period ended December 31, 2012.

The following common share purchase options are outstanding at December 31, 2012:

Date of Grant	Number of options outstanding and excercisable	Exercise Price	Weighted Average remaining life (years)	Expiry Date
February 1, 2011	5,300,000	$ 0.10	3.04	February 1, 2016
	5,300,000			

(c) Warrants

The Company had no outstanding share purchase warrants as at December 31, 2012 and September 30, 2012.

(Expressed in Canadian dollars)

8. RELATED PARTY TRANSACTIONS

Related parties and related party transactions impacting the accompanying financial statements are summarized below and include transactions with the following individuals or entities:

Key management personnel:

Key management personnel include those persons having authority and responsibility for planning, directing and controlling the activities of the Company as a whole. The Company has determined that key management personnel consist of executive and non-executive members of the Company's Board of Directors and corporate officers.

Remuneration attributed to key management personnel can be summarized as follows:

	December 31, 2012	December 31, 2011
Short-term benefits*	28,500	28,500
	$ 28,500	$ 28,500

*includes base salaries pursuant to contractual employment, or consultancy arrangements. These have been recorded in consulting fees and management fees.

There were no transactions with other related parties during the period ended December 31, 2012.

As at December 31, 2012, amounts due to related parties consist of $28,125 (September 31, 2012 - $14,675) to companies controlled by officers and directors of the Company.

During the year ended September 30, 2012, an amount of $128,000 was loaned to the CEO and director of the Company. Repayments of $46,450 were made during the year ending 2012, $10,500 during the period ending December 31, 2012 and $52,803 was offset by expense reimbursements during the year ending September 30, 2012 resulting in an amount receivable at period end December 31, 2012 of $18,246 (September 31, 2012 - $28,747).

Amounts due to and from related parties are due on demand within specific terms of repayment.

9. FINANCIAL RISK FACTORS

The Company manages its exposure to a number of different financial risks arising from its operations as well as its use of financial instruments including market risks (commodity prices, foreign currency exchange rate and interest rate), credit risk and liquidity risk through its risk management strategy. The objective of the strategy is to support the delivery of the Company's financial targets while protecting its future financial security and flexibility.

Financial risks are primarily managed and monitored through operating and financing activities and, if required, through the use of derivative financial instruments. The financial risks are evaluated regularly with due consideration to changes in the key economic indicators and up-to-date market information.

The Company's financial instruments consist of cash and cash equivalents, amounts receivables, due from related party, reclamation bonds, accounts payable and accrued liabilities, and amounts due to related parties. The fair value of the Company's receivables, due from related party, accounts payable and accrued liabilities, and amounts due to related parties approximate their carrying value, due to their short-term maturities or ability of prompt liquidation. The Company's cash and cash equivalents are recorded at fair value, under the fair value hierarchy, based on level one quoted prices in active markets for identical assets or liabilities. The Company's other financial instrument, being reclamation bonds, are measured at amortized cost.

The Company is exposed in varying degrees to a variety of financial instrument related risks.

Market Risk

Market risk is the risk or uncertainty arising from possible market price movements and their impact on the future performance of the business. These market risks are evaluated by monitoring changes in key economic indicators and market information on an on-going basis.

a) Interest Rate Risk

The Company has cash balances, and is not at a significant risk to fluctuating interest rates. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the credit ratings of its banks. As of December 31, 2012 , the Company did not have any investments in investment-grade short-term deposit certificates.

b) Commodity Price Risk

The Company is subject to price risk from fluctuations in market prices of gold, copper and other metals. Gold, copper and other metal prices historically have fluctuated widely and are affected by numerous factors outside of the Company's control.

The future operations of the Company are highly correlated to the market prices of these metals, as is the ability of the Company to continue to explore and develop its mineral properties.

A prolong period of depressed prices could impair the Company's operations and development opportunities, and significantly erode shareholder value.

c) Foreign currency risk

As at December 31, 2012, the Company's expenditures are predominantly in Canadian dollars, and any future equity raised is expected to be predominantly in Canadian dollars. During the year ended September 30, 2011, the Company sold its subsidiaries in the United Kingdom. As a result, the Company does not believe it has significant foreign currency risk.

Liquidity Risk

Liquidity risk encompasses the risk that a company cannot meet its financial obligations in full. The Company's main sources of liquidity is derived from its common stock issuances. These fund are primarily used to finance working capital, operating expenses, capital expenditures, and acquisitions.

The Company manages its liquidity risk by regularly monitoring its cash flows from operating activities and holding adequate amounts of cash and cash equivalents.

As at December 31, 2012 the Company held cash of $20,499 to settle current liabilities of $71,759. The Company expects to fund these liabilities through the issuance of capital stock over the coming year.

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 of cash and cash equivalents and accounts receivable. The Company has reduced its credit risk by investing its cash equivalents with a Canadian chartered bank. Also, as the majority of its receivables are with the Canadian government in the form of sales tax receivable, credit risk is considered minimal.

10. CAPITAL MANAGEMENT

The Company defines capital management in the manner it manages its capital stock. As at December 31, 2012 the Company's capital stock was $19,466,341.

There were no changes in the Company's approach to capital management during the year ended December 31, 2012 and the Company is not subject to any externally imposed capital requirements.

The Company's objectives when managing capital are:

a) To safeguard the Company's financial capacity and liquidity for future earnings in order to continue to provide an appropriate return to shareholders and other stakeholders;

b) To maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk; and

c) To enable the Company to maximize growth by meeting its capital expenditure budget, to expand its budget to accelerate projects, and to take advantage of acquisition opportunities.

The Company's capital structure includes components of shareholders' equity.

The Company regularly monitors and reviews the amount of capital in proportion to risk and future development and exploration opportunities. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new debt or equity or similar instruments, reduce debt levels from, or make adjustments to, its capital expenditure program.