AAN Ventures Inc.

(Formerly ONA Power Corp.)

Financial Statements

For the Year Ended September 30, 2012

Expressed in Canadian Dollars

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

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INDEPENDENT AUDITOR'S REPORT

To the Shareholders of AAN Ventures Inc.

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of AAN Ventures Inc. as at September 30, 2012, September 30 2011 and October 1, 2010 and its financial performance and its cash flows for the years ended September 30, 2012 and 2011, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about AAN Ventures Inc.'s ability to continue as a going concern.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
January 23, 2013

AAN Ventures Inc. (Formerly ONA Power Corp.)
Statements of financial position
(Expressed in Canadian Dollars)

		September 30, 2012		September 30, 2011		October 1, 2010
ASSETS				(Note 11)		(Note 11)
Current assets						
Cash and cash equivalents	$	46,605	$	114,391	$	199,549
Other receivables		10,082		4,048		-
		56,687		118,439		199,549
Non-current assets						
Equipment		-		-		1,043
TOTAL ASSETS	$	56,687	$	118,439	$	200,592
LIABILITIES						
Current liabilities						
Accounts payable and accrued liabilities (Note 5)	$	10,277	$	14,907	$	270,255
Due to related party (Note 7)		87,200		20,000		2,423
TOTAL LIABILITIES		97,477		34,907		272,678
SHAREHOLDERS' EQUITY (DEFICIENCY)						
Share capital (Note 6)		22,809,240		22,809,240		22,581,024
Reserves (Note 6)		6,372,363		6,372,363		6,165,546
Deficit		(29,222,393)		(29,098,071)		(28,818,656)
TOTAL EQUITY		(40,790)		83,532		(72,086)
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	$	56,687	$	118,439	$	200,592

APPROVED BY THE DIRECTORS ON JANUARY 23, 2013:

"Lewis Dillman"
Director

"Rana Vig"
Director

See accompanying notes to the financial statements

AAN Ventures Inc. (Formerly ONA Power Corp.)
Statements of comprehensive loss
(Expressed in Canadian Dollars)

	Years ended	
	September 30, 2012	**September 30, 2011**
Expenses		
Amortization	$ -	$ 1,043
Consulting and management fees (Note 7)	60,000	35,000
Bank charges and interest	544	-
Office and miscellaneous	830	880
Professional fees	13,350	22,247
Rent (Note 7)	30,000	25,000
Stock based compensation (Notes 6 and 7)	-	35,033
Transfer agent and regulatory fees	21,937	14,145
Travel	-	3,030
	(126,661)	**(136,378)**
Other items		
Impairment of exploration and evaluation assets (Note 4)	-	(169,713)
Gain on debt forgiveness (Note 8)	-	26,676
Other income	2,339	-
	2,339	(143,037)
Net loss	**$ (124,322)**	**$ (279,415)**
Basic and diluted loss per common share	**$ -**	**$ (0.02)**
Weighted average shares outstanding – basic and diluted	**16,753,080**	**16,037,098**

See accompanying notes to the financial statements

AAN Ventures Inc. (Formerly ONA Power Corp.)
Statement of changes in equity (deficiency)
(Expressed in Canadian Dollars)

	Share capital				Reserves						
	Number of shares		**Amount**		**Stock option reserve**		**Warrant reserve**		**Deficit**		**Total**
Balance, September 30, 2010	**14,086,413**	**$**	**22,581,024**	**$**	**5,390,889**	**$**	**774,657**	**$**	**(28,818,656)**	**$**	**(72,086)**
Net loss	-		-		-		-		(279,415)		(279,415)
Private placement – issued for cash (Note 6)	2,666,666		400,000		-		-		-		400,000
Warrants issued with private placement (Note 6)	-		(171,784)		-		171,784		-		-
Stock-based compensation (Note 6)	-		-		35,033		-		-		35,033
Balance, September 30, 2011	**16,753,079**	**$**	**22,809,240**	**$**	**5,425,922**	**$**	**946,441**	**$**	**(29,098,071)**	**$**	**83,532**
Net loss	-		-		-		-		(124,322)		(124,322)
Balance, September 30, 2012	**16,753,079**	**$**	**22,809,240**	**$**	**5,425,922**	**$**	**946,441**	**$**	**(29,222,393)**	**$**	**(40,790)**

See accompanying notes to the financial statements

AAN Ventures Inc. (Formerly ONA Power Corp.)
Statements of cash flow
(Expressed in Canadian Dollars)

	Years ended	
	September 30, 2012	**September 30, 2011**
Operating activities		
Net loss	$ (124,322)	$ (279,415)
Non-cash items:		
Gain on debt settlement	-	(26,676)
Amortization	-	1,043
Stock-based compensation	-	35,033
Impairment of exploration and evaluation assets	-	169,714
Changes in non-cash working capital items:		
Accounts receivable	(6,034)	(4,048)
Accounts payable and accrued liabilities	(4,630)	(228,672)
Due to related parties	67,200	-
Net cash flows used in operating activities	(67,786)	(333,021)
Investing activities		
Exploration and evaluation assets	-	(169,714)
Net cash flows used in investing activities	-	(169,714)
Financing activities		
Private placement	-	400,000
Due to related parties	-	17,577
Net cash flows provided by financing activities	-	417,577
Change in cash and cash equivalents	(67,786)	(85,158)
Cash and cash equivalents, beginning	114,391	199,549
Cash and cash equivalents, ending	$ 46,605	$ 114,391
The components of cash and cash equivalents are as follows:		
Cash	$ 46,605	$ 14,090
Cash equivalents:		
Guaranteed Investment Certificates	$ -	$ 100,301
Supplemental cash flow information:		
Cash paid for interest	$ -	$ -
Cash paid for income taxes	$ -	$ -

1. Nature and continuance of operations

AAN Ventures Inc. (formerly Ona Power Corp.) was incorporated under the Business Corporation Act of Alberta on August 31, 1998 and was continued to British Columbia on January 30, 2006. The Company changed its name on April 9, 2012. The Company's shares are publicly traded on the Frankfurt Exchange and Canadian National Stock Exchange (the "CNSX") under the symbol "ANN".

The head office, principal address and records office of the Company are located at 8338 – 120th Street, Surrey, British Columbia, Canada, V3W 3N4.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern which assumes the Company will be able to realize its assets and discharge its liabilities in the normal course of operations. As at September 30, 2012, the Company is still in the process of reviewing business opportunities and is not able to finance day to day activities through operations. The Company's continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. These factors indicate the existence of a material uncertainty that cast significant doubt about the Company's ability to continue as a going concern. Management intends to finance operating costs over the next twelve months with loans from directors and companies controlled by directors and or private placement of common shares. Should the Company be unable to continue as a going concern, the net realizable value of its assets may be materially less than the amounts on its statement of financial position.

2. Statement of compliance

Statement of compliance and conversion to International Financial Reporting Standards

The financial statements of the Company have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB") and Interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"), including IFRS 1, First-time Adoption of IFRS. The Company has consistently applied the same accounting policies throughout all periods presented, as if these policies had always been in effect (Note 11). This is the first time that the Company has prepared its financial statements in accordance with IFRS. Previously, the Company prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("CGAAP").

These financial statements were approved and authorized by the Board of Directors on January 23, 2012.

3. Significant accounting policies

Basis of preparation

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

3. Significant accounting policies (continued)

Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Fair value through profit or loss ("FVTPL") - Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. They are subsequently measured at fair value with changes in fair value recognized in profit or loss.

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 subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities and that the Company intends to hold to maturity. These assets are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale – These consist of non-derivative financial assets that are designated as available-for sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets to the extent they are expected to be realized within 12 months after the end of the reporting period. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses on monetary financial assets.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost. Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the group commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership. At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether an impairment has arisen.

The Company does not have any derivative financial assets and liabilities.

Cash and cash equivalents

Cash and cash equivalents include cash on hand and other short-term highly liquid investments with original maturities of three months or less.

Share-based payments

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to nonemployees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

3. Significant accounting policies (continued)

Loss per share

Basic loss per share is calculated by dividing the loss attributable to common shareholders by the weighted average number of common shares outstanding in the period. For all periods presented, the loss attributable to common shareholders equals the reported loss attributable to owners of the Company. Diluted loss per share is calculated by the treasury stock method whereby the weighted average number of common shares outstanding for the calculation of diluted loss per share assumes that the proceeds to be received on the exercise of dilutive share options and warrants are used to repurchase common shares at the average market price during the period.

Impairment of assets

The carrying amount of the Company's assets is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of income and comprehensive income.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs. An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Income taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

3. Significant accounting policies (continued)

Exploration and evaluation assets

All costs directly associated with the exploration and evaluation assets are initially capitalized. Exploration and evaluation costs are those expenditures for an area where technical feasibility and commercial viability has not yet been determined. These costs include unproved property acquisition costs, geological and geophysical costs, asset retirement costs, exploration and evaluation drilling, sampling and appraisals. Costs incurred prior to acquiring the legal rights to explore an area are charged directly to net earnings as exploration and evaluation expense.

When an area is determined to be technically feasible and commercially viable, the accumulated costs are transferred to oil and gas properties subsequent to determining that the assets are not impaired. When an area is determined not to be technically feasible and commercially viable or the Company decides not to continue with its activity, the unrecoverable costs are charged to net earnings.

Gains and losses on disposal of an item of exploration and evaluation assets are determined by comparing the proceeds from disposal with the carrying amount of exploration and evaluation assets and are recognized in net earnings.

Restoration and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to exploration and evaluation assets along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining assets.

The Company’s estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to mining assets with a corresponding entry to the restoration provision. The Company’s estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in the Company’s estimates of reclamation costs, are charged to profit and loss for the period. The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred. The costs of restoration projects that were included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company’s accounting policy for exploration and evaluation assets.

Significant estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company’s management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the fair value measurements for financial instruments, the recoverability and measurement of deferred tax assets, provisions for restoration and environmental obligations and contingent liabilities.

3. Significant accounting policies (continued)

Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include:

- the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty; and
- the classification of financial instruments.

Accounting standards issued by not yet effective

New standard IFRS 9 "Financial Instruments"
This new standard is a partial replacement of IAS 39 "Financial Instruments: Recognition and Measurement". 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. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

New standard IFRS 10 "Consolidated Financial Statements"
This new standard will replace IAS 27 "Consolidated and Separate Financial Statements", and SIC-12 "Consolidation – Special Purpose Entities". Concurrent with IFRS 10, the IASB issued IFRS 11 "Joint Ventures"; IFRS 12 "Disclosures of Involvement with Other Entities"; IAS 27 "Separate Financial Statements", which has been amended for the issuance of IFRS 10 but retains the current guidance for separate financial statements; and IAS 28 "Investments in Associates and Joint Ventures", which has been amended for conforming changes based on the issuance of IFRS 10 and IFRS 11.

IFRS 10 uses control as the single basis for consolidation, irrespective of the nature of the investee, eliminating the risks and rewards approach included in SIC-12, and requires continuous assessment of control over an investee. The above consolidation standards are effective for annual periods beginning on or after January 1, 2013.

New standard IFRS 11 "Joint Arrangements"
This new standard requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venture will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionately consolidate or equity account for interests in joint ventures. IFRS 11 supersedes lAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities-Non-monetary Contributions by Venturers.

New standard IFRS 12 "Disclosure of Interests in Other Entities"
This new standard establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

New standard IFRS 13 "Fair value measurement"
This new standard replaces the fair value measurement guidance currently included in various other IFRS standards with a single definition of fair value and extensive application guidance. IFRS 13 provides guidance on how to measure fair value and does not introduce new requirements for when fair value is required or permitted. It also establishes disclosure requirements to provide users of the financial statements with more information about fair value measurements. IFRS 13 is effect for annual periods beginning on or after January 1, 2013.

(Expressed in Canadian Dollars)

3. Significant accounting policies (continued)

Accounting standards issued by not yet effective (continued)

New interpretation IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"
This new IFRIC clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013.

Amendments to IAS 32 "Financial Instruments: Presentation"
These amendments address inconsistencies when applying the offsetting requirements, and is effective for annual periods beginning on or after January 1, 2014.

Financial statement presentation
In June 2011, the IASB and the Financial Accounting Standards Board ("FASB") issued amendments to standards to align the presentation requirements for other comprehensive income ("OCI"). The IASB issued amendments to IAS 1 "Presentation of Financial Statements" to require companies preparing financial statements under IFRS to group items within OCI that may be reclassified to the profit or loss. The amendments also reaffirm existing requirements that items in OCI and profit or loss should be presented as either a single statement or two consecutive statements. The amendments are effective for fiscal years beginning on or after July 1, 2012.

The Company has not early adopted these revised standards and is currently assessing the impact that these standards will have on its consolidated financial statements.

Other accounting standards or amendments to existing accounting standards that have been issued but have future effective dates are either not applicable or are not expected to have a significant impact on the Company's financial statements.

4. Exploration and evaluation assets

On February 18, 2011, the Company entered into an agreement to purchase interests in two oil wells located in Tennessee, USA. The Company paid US$135,000 (CDN$134,772) in acquisition costs and incurred $34,941 in exploration costs during the year ended September 30, 2011.

Management determined that both wells were not commercially viable and both interests were fully impaired as at September 30, 2011.

5. Payables and accrued liabilities

		September 30, 2012		**September 30, 2011**		**October 1, 2011**
Trade payables	$	7,820	$	4,827	$	48,255
Accruals		2,437		10,080		222,000
	$	10,277	$	14,907	$	270,255

6. Share capital

Authorized share capital

Unlimited number of common shares without par value.

Issued share capital

On April 25, 2012, the Company received approval from the CNSX to consolidate its shares on a 3 to 1 basis. This resulted in the outstanding shares of the company being consolidated from 50,259,239 to 16,753,080. All references to common shares, share purchase warrants, stock options, and per share amounts for all periods have been adjusted on a retrospective basis to reflect the common share consolidation.

(Expressed in Canadian Dollars)

6. Share capital (continued)

In January 2011, the Company completed a private placement for gross proceeds of $400,000 and issued 2,666,666 units. Each unit consisted of one common share and one warrant of the Company. Each warrant entitles the holder to purchase a common share of the Company at $0.15 for a period of five years. The Company allocated $228,216 to common shares and $171,784 to the value of the warrants.

The fair value of the warrants was calculated using the Black-Scholes option pricing model and the following assumptions:

Risk-free interest rate	2.53%
Expected volatility	100%
Expected life	5 years
Dividend yield	0%

Stock options

The Company has adopted a stock option plan whereby the Company may from time to grant to directors, officers, employees and consultants options to purchase common shares of the Company provided that the number of options granted, including all options granted by the Company to date, does not exceed 10% of the Company's common shares issued and outstanding at the time of granting stock options. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company or 30 days following cessation of an optionee conducting investor relations activities' position.

On March 1, 2011, 725,000 stock options were granted to various consultants, directors, and officers with an exercise price of $0.10 per share and exercisable for five years. The fair value of the options at the date of grant was $35,033.

The Black-Scholes option pricing model was used using the following assumptions:

Risk-free interest rate	2.6%
Expected volatility	200%
Expected life	5 years
Dividend yield	0%

There were 241,667 options outstanding at the year ended September 30, 2012 and September 30, 2011 with an exercise price of $0.10 and a weighted average remaining life of 3.42 years.

Share Purchase Warrants

There were 10,488,888 warrants outstanding at the year ended September 30, 2011. On September 27, 2012 7,822,222 warrants expired. As at September 30, 2012 there remained 2,666,666 warrants outstanding. On September 30, 2012, the weighted average exercise price and the weighted average remaining life of the outstanding warrants are $0.05 and 3.27 years respectively.

Reserves

Stock option reserve

The stock option reserve records items recognized as stock-based compensation expense until such time that the stock options are exercised, at which time the corresponding amount will be transferred to share capital. If the options expire unexercised, the amount recorded remains in the account.

Warrant reserve

The warrant reserve records items recognized as warrants until such time that they are exercised, at which time the corresponding amount will be transferred to share capital.

(Expressed in Canadian Dollars)

7. Related party transactions

Related party balances

As at September 30, 2012, $87,200 (2011-$20,000) was owing to a company controlled by the CEO of the Company. The amount is unsecured, non-interest bearing and due on demand.

Related party transactions

The Company incurred the following transactions with a Company controlled by the former CEO of the Company:

		September 30, 2012		**September 30, 2011**
Management fees	$	60,000	$	35,000
Rent		30,000		25,000
	$	90,000	$	60,000

Key management personnel compensation

During the year ended September 30, 2011, the Company incurred $25,369 in stock based compensation to its CEO and directors.

8. Debt Forgiveness

During the year ended September 30, 2011, the Company's debtors forgave the Company debt of $26,676 and the Company recognized a gain on the settlement of the same amount.

9. Income Taxes

A reconciliation of the expected income tax recovery to the actual income tax recovery is as follows:

		2012		**2011**
Net loss	$	(124,322)	$	(279,415)
Statutory tax rate		26.00%		26.97%
Expected income tax recovery		(32,324)		(75,358)
Non-deductible items and other permanent differences		-		9,448
Effect of change in tax rates		1,244		4,814
Change in valuation allowance		31,080		61,096
Actual income tax recovery	$	-	$	-

The Company has the following deductible temporary differences for which no deferred tax asset has been recognized:

		2012		**2011**
Non-capital losses carry-forward	$	1,234,229	$	1,203,148
Capital losses carry-forward		1,855,342		1,855,342
Mineral properties		126,622		126,622
Cumulative eligible capital		66,786		66,786
Equipment		261		261
Others		106,154		106,154
Less: Valuation allowance		(3,389,393)		(3,358,313)
Net deferred income tax assets	$	-	$	-

(Expressed in Canadian Dollars)

9. Income Taxes (continued)

The Company's has $4,936,915 in non-capital losses which expire as follows:

Year		Amount
2014	$	178,006
2015		145,848
2026		610,913
2027		677,234
2028		1,352,301
2029		1,203,313
2030		571,354
2031		73,625
2032		124,322
Total	$	4,936,915

10. Financial instruments and risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

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. The Company's primary exposure to credit risk is on its cash held in bank accounts. As most of the Company's cash is held by one bank there is a concentration of credit risk. This risk is managed by using a major bank that is high credit quality of financial institutions as determined by rating agencies. The Company's secondary exposure to risk is on its other receivables. This risk is minimal as receivables consist primarily of refundable government goods and services taxes.

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company ensures that there are sufficient funds to meet its short-term business requirements, taking into account its anticipated cash flows from operations and its holdings of cash and cash equivalents.

Historically, the Company's sole source of funding has been the issuance of equity securities for cash, primarily through private placements. The Company's access to financing is always uncertain. There can be no assurance of continued access to significant equity funding.

Foreign exchange risk

Foreign currency risk is the risk that the fair values of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the respective functional currency. The Company is not exposed to foreign exchange risk.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is not exposed to interest rate risk.

Capital Management

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence and to sustain future development of the business. The capital structure of the Company consists of cash and share capital.

There were no changes in the Company's approach to capital management during the year. The Company is not subject to any externally imposed capital requirements.

(Expressed in Canadian Dollars)

10. Financial instruments and risk management (continued)

Classification of financial instruments

Financial assets included in the statement of financial position are as follows:

		September 30, 2012		**September 30, 2011**		**October 1, 2010**
Cash	$	46,605	$	114,391	$	199,549
Loans and receivables:						
Other receivables		10,082		4,048		-
	$	56,687	$	118,439	$	119,549

Financial liabilities included in the statement of financial position are as follows:

		September 30, 2012		**September 30, 2011**		**October 1, 2010**
Non-derivative financial liabilities:						
Trade payables	$	10,277	$	14,907	$	48,255
Due to related parties		87,200		20,000		2,423
	$	97,477	$	34,907	$	50,678

Fair value

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

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

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

The following is an analysis of the Company's financial assets measured at fair value as at September 30, 2012 and 2011:

	As at September 30, 2012					
		Level 1		Level 2		Level 3
Cash	$	46,605	$	-	$	-

	As at September 30, 2011					
Cash and cash equivalents	$	114,391	$	-	$	-

11. Transition to IFRS

These are the Company’s first annual financial statements prepared in accordance with IFRS as issued by the IASB. The policies set out in the Significant Accounting Policies section have been applied in preparing the statements of financial position for the years ended September 30, 2011 and October 1, 2010 and the statement of comprehensive loss for the year ended September 30, 2011. The Company adopted IFRS on October 1, 2011 with a transition date of October 1, 2010.

The adoption of IFRS had no impact on the Company's financial position as at September 30, 2011 or October 1, 2010 or on the Company’s financial performance and cash flows for the period ended September 30, 2011.

Exemptions applied

The Company has applied the following optional transition exemptions to full retrospective application of IFRS:

- IFRS 2 “Share-based Payment” has not been applied to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to January 1, 2010, which have been accounted for in accordance with Canadian GAAP.
- In accordance with IFRS 1, an entity’s estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company’s IFRS estimates as of October 1, 2010 are consistent with its Canadian GAAP estimates for the same date.