

MOONCOR OIL & GAS CORP.

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS (Unaudited prepared in Canadian dollars)

For the Nine Months Ended September 30, 2013

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed consolidated interim financial statements, they must be accompanied by a notice indicating that the condensed consolidated interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed consolidated interim financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Mooncor Oil & Gas Corp.
Consolidated Statement of Financial Position (Unaudited)
(Expressed in Canadian dollars)

As at	September 30, 2013	December 31, 2012 (Audited)
ASSETS		
Current Assets:		
Cash and cash equivalents	\$ 119,085	\$ 204,780
Sundry receivable	42,156	135,382
Prepaid expenses	18,750	20,737
	179,992	360,899
Other Assets:		
Segregated cash	-	40,968
Property and equipment	505,000	505,000
Deposits	349,381	349,381
	854,380	895,349
	\$ 1,034,372	\$ 1,256,248
LIABILITIES		
Current Liabilities:		
Accounts payable and accrued liabilities	\$ 735,157	\$ 1,139,166
Convertible debentures payable (Note 4)	-	1,099,515
Reclamation and decommissioning obligation	71,670	70,527
	806,827	2,309,208
SHAREHOLDERS' EQUITY		
Capital stock (Note 3)	\$ 19,642,831	\$ 18,447,248
Contributed surplus (Note 3)	1,897,321	1,705,263
Equity component of convertible debenture	-	192,059
Warrants (Note 3)	21,831	1,055,680
Deficit	(21,334,438)	(22,453,210)
	227,545	(1,052,960)
	\$ 1,034,372	\$ 1,256,248

See accompanying notes to the interim condensed consolidated financial statements.

Mooncor Oil & Gas Corp.
Consolidated Statements of Comprehensive Income/(Loss) (Unaudited)
(Expressed in Canadian dollars)

	Three Months ended September 30, 2013	Three Months ended September 30, 2012	Nine Months ended September 30, 2013	Nine Months ended September 30, 2012
Production Revenue	\$ -	\$ -	\$ -	\$ 95,290
Interest Income	-	-	202	-
TOTAL REVENUE	<u>\$ -</u>	<u>\$ -</u>	<u>\$ 202</u>	<u>\$ 95,290</u>
EXPENSES				
Consulting	\$ -	\$ -	-	57,000
Stock-based compensation	-	-	-	35,652
Professional fees	\$ 32,469	\$ 11,623	51,595	46,480
Production and operating expenses	\$ 17,397	-	27,653	184,510
Office and general	\$ 15,198	\$ 16,607	48,054	48,963
Finance costs	-	\$ 26,025	45,334	77,517
Travel	-	-	2,246	7,011
Insurance	\$ 2,075	\$ 11,666	9,375	29,541
Amortization and depletion	\$ -	\$ 6,989	-	23,499
	<u>\$ 67,139</u>	<u>72,910</u>	<u>184,257</u>	<u>510,173</u>
(Loss) before undernoted	\$ (67,139)	(72,910)	(184,055)	(414,883)
Gain on Indebtedness Settlement (note 5)	-	-	1,302,828	-
Write-down of oil and gas properties and deferred exploration expenditures	-	(816,252)	-	(1,961,732)
Income/(loss) before income tax	(67,139)	(889,162)	1,118,772	(2,376,615)
Deferred income tax recovery	-	-	-	7,781
net income/(loss) and Comprehensive income/(loss) for the period	<u>\$ (67,139)</u>	<u>\$ (889,162)</u>	<u>\$ 1,118,772</u>	<u>\$ (2,368,834)</u>
Weighted Average Shares Outstanding - basic	<u>149,934,520</u>	<u>121,953,956</u>	<u>149,934,520</u>	<u>121,953,956</u>
Weighted Average Shares Outstanding - diluted	<u>163,985,512</u>	<u>121,953,956</u>	<u>163,985,512</u>	<u>121,953,956</u>
Net income/(loss) per share - basic	<u>\$ (0.0004)</u>	<u>\$ (0.0073)</u>	<u>\$ 0.0075</u>	<u>\$ (0.0120)</u>
Net income/(loss) per share - diluted	<u>\$ (0.0004)</u>	<u>\$ (0.0073)</u>	<u>\$ 0.0068</u>	<u>\$ (0.0194)</u>

See accompanying notes to the interim condensed consolidated financial statements.

Mooncor Oil & Gas Corp.
Consolidated Statements of Changes in Equity (Unaudited)
(Expressed in Canadian dollars)

	Equity					Accumulated		
	Number of Shares	Capital Stock	Contributed Surplus	component of convertible debenture	Warrants	Other Comprehensive Loss	Deficit	Total Equity
Balance at January 1, 2012	121,953,956	\$ 17,335,713	\$ 1,558,780	\$ 192,059	\$ 2,167,215	\$ -	\$ (18,893,705)	\$ 2,360,062
Stock-based compensation			35,652					35,652
Warrants:								
Expired warrants transferred to capital stock		1,111,535			(1,111,535)			-
Net Comprehensive Loss for the period							(2,368,834)	(2,368,834)
Balance at September 30, 2012	121,953,956	\$ 18,447,248	\$ 1,594,432	\$ 192,059	\$ 1,055,680	\$ -	\$ (21,262,539)	\$ 26,880
Balance at January 1, 2013	121,953,956	\$ 18,447,248	\$ 1,705,262	\$ 192,059	\$ 1,055,680	\$ -	\$ (22,453,210)	\$ (1,052,960)
Issue of common stock on settlement of debt (Note 3)	27,980,564	139,903						139,902
Reallocation of equity component of convertible Warrants:			192,059	(192,059)				-
Allocation on settlement of debt (Note 3)					21,831			21,831
Reallocation of expired warrants (Note 3)		1,055,680			(1,055,680)			-
Net income and comprehensive income for the period							1,118,772	1,118,772
Balance at September 30, 2013	149,934,520	\$ 19,642,831	\$ 1,897,321	\$ -	\$ 21,831	\$ -	\$ (21,334,438)	\$ 227,545

See accompanying notes to the interim condensed consolidated financial statements.

Mooncor Oil & Gas Corp.
Consolidated Statements of Cash Flows (Unaudited)
(Expressed in Canadian dollars)

	Nine Months ended September 30, 2013	Nine Months ended September 30, 2012
Cash flows used in operating activities		
Net income/(loss) for the period	\$ 1,118,772	\$ (2,368,834)
Write-down of evaluation and exploration assets	-	1,961,732
Gain in debt settlement	\$ (1,302,828)	-
Stock-based compensation	-	35,652
Reduction in accounts payable on debt settlement	319,712	-
Interest accrued on convertible debenture	45,334	-
Accretion of reclamation and decommissioning obligation	1,143	-
Amortization	-	23,499
	<u>182,134</u>	<u>(347,951)</u>
Changes in non-cash working capital balances		
Sundry receivables	93,226	95,762
Prepaid expense	1,987	30,755
Deposit	-	(4,664)
Deferred premium on flow through shares	-	(7,780)
Accounts payable and accrued liabilities	(404,009)	166,200
	<u>(126,663)</u>	<u>(67,678)</u>
Cash flows generated from/(used) in investing activities		
Decrease/(Increase) in segregated cash	40,968	(152)
Purchase of equipment	-	(95,000)
Additions to exploration and evaluation assets	-	(220,432)
	<u>40,968</u>	<u>(315,584)</u>
Cash flows from financing activities		
Convertible debentures	-	48,330
	<u>-</u>	<u>48,330</u>
Net decrease in cash and cash equivalents	(85,695)	(334,926)
Cash and cash equivalents, beginning of period	<u>204,780</u>	<u>602,201</u>
Cash and cash equivalents, end of period	<u>119,085</u>	<u>\$ 267,275</u>
Supplemental Information		
Income tax paid	<u>-</u>	<u>\$ -</u>
Interest paid	<u>-</u>	<u>\$ 25,466</u>

See accompanying notes to the interim condensed consolidated financial statements.

MOONCOR OIL & GAS CORP.

NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

For the Nine Months Ended September 30, 2013

(Prepared in Canadian Dollars)

1. NATURE OF OPERATIONS AND GOING CONCERN UNCERTAINTIES

Mooncor Oil & Gas Corp. (the "Company") is continued under the Business Corporations Act (Ontario). The Company's principal assets are oil and nature gas interests which are not yet in substantial commercial production. The Company is in the process of exploring other opportunities. The company is domiciled in the province of Ontario and its head office is located at 151 Randall Street, Suite 101, Oakville, Ontario, Canada. The Company is a public company trading on the TSX Venture Exchange ("TSXV") under the symbol "MOO".

These interim condensed consolidated financial statements ("interim consolidated statements") were approved for issuance by the Company's board of directors on November 29, 2013.

These interim consolidated statements have been prepared using accounting policies applicable to a going concern, which contemplates the realization of assets and settlement of liabilities in the normal course of business as they become due. The Company has a working capital deficiency of \$626,835 and an accumulated deficit of \$21,334,438 as at September 30, 2013. The Company is in the exploration stage and is subject to risks and challenges similar to other companies in a comparable stage of exploration. These risks include, but are not limited to, dependence on key individuals, successful exploration and the ability to secure adequate financing to meet the minimum capital required to successfully complete its projects, political risk relating to maintaining property licenses in good standing and continuing as a going concern. Management estimates that the funds available as at September 30, 2013 will not be sufficient to meet the Company's potential capital and operating expenditures through September 30, 2014. The Company will have to raise additional funds to continue operations. Although the Company has been successful in raising funds to date, there can be no assurance that adequate funding will be available in the future, or available on terms acceptable to the Company. Failure to meet its funding commitments may result in the loss of the Company's exploration and evaluation interests.

The challenges of securing requisite funding and the continued estimated operating losses, cast significant doubt on the Company's ability to continue as a going concern. The interim consolidated statements do not include any adjustments relating to the recoverability and classification of recorded asset amounts or to the amounts or classification of liabilities that might be necessary should the Company not be able to continue as a going concern.

2. BASIS OF PRESENTATION

(a) Statement of compliance:

These interim consolidated statements are unaudited and have been prepared on a condensed basis in accordance with International Accounting Standard 34, Interim Financial Reporting, issued by the International Accounting Standards Board and interpretations of the International Financial Reporting Interpretations Committee using accounting policies consistent with International Financial Reporting Standards.

The same accounting policies and methods of computation were followed in the preparation of these interim consolidated statements as were followed in the preparation of and as described in note 3 to the annual consolidated financial statements as at and for the year ended December 31, 2012. Accordingly, these interim consolidated statements for the nine months ended September 30, 2013 should be read

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NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

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together with the annual consolidated financial statements as at and for the year ended December 31, 2012.

Accounting policies

The accounting policies adopted are consistent with those of the previous financial year except for the adoption of the new standards and interpretations effective January 2013.

IFRS 10 – Consolidation

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. Under existing IFRS, consolidation is required when an entity has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. IFRS 10 replaces SIC-12 Consolidation—Special Purpose Entities and parts of IAS 27 Consolidated and Separate Financial Statements.

IFRS 11 - Joint Arrangements

IFRS 11 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 venturer 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 IAS 31, Interests in Joint Ventures, and SIC-13, Jointly Controlled Entities—Non-monetary Contributions by Venturers.

IFRS 12 – Disclosure of Interests in Other Entities

IFRS 12 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.

IFRS 13 - Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to Other Standards

In addition, there have been amendments to existing standards, including IAS 27, Separate Financial Statements (IAS 27), and IAS 28, Investments in Associates and Joint Ventures (IAS 28). IAS 27

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addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13.

International Financial Reporting Standard 9, Financial Instruments (“IFRS 9”)

IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, Financial Instruments – Recognition and Measurement, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income. This standard is required to be applied for accounting periods beginning on or after January 1, 2013, with earlier adoption permitted.

The Company has assessed the impact of these standards and determined that it has no impact on the financial statements.

(b) Basis of presentation:

These interim consolidated statements have been prepared using the historical cost convention except for certain financial instruments which have been measured at fair value. All monetary references expressed in these notes are references to Canadian dollar amounts (“\$”).

(c) Basis of consolidation:

These interim consolidated statements include the financial statements of the Company and its wholly-owned subsidiaries: Mooncor Energy Inc. (an Alberta Corporation) and DRGN Energy Inc. (an Ontario Corporation).

Subsidiaries are entities controlled by the Company. Control is the power to govern the financial and operating policies of an entity to obtain benefits from its activities. Subsidiaries are included in the interim consolidated statements from the date control is obtained until the date control ceases. The financial statements of the subsidiaries are prepared for the same reporting period as the Company, using consistent accounting policies. All intercompany balances, transactions, income, expenses, profits and losses, including unrealized gains and losses, have been eliminated on consolidation.

MOONCOR OIL & GAS CORP.**NOTES TO THE CONDENSED CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)**

For the Nine Months Ended September 30, 2013

(Prepared in Canadian Dollars)

3. EQUITY**a. Share capital**

At September 30, 2013 and December 31, 2012 the authorized share capital comprised an unlimited number of common shares with no par value.

During the nine months ended September 30, 2013 the Company issued 22,896,986 common shares at deemed value of \$1,144,849 and warrants exercisable for up to 11,448,492 common shares for five years at \$0.10 per share in satisfaction of indebtedness of \$1,144,849 owed to two holders of secured convertible debentures of the Company. During the nine months ended September 30, 2013 Mooncor has also issued an additional 5,083,578 common shares at a deemed value of \$254,179 in satisfaction of indebtedness of \$319,712 owed to service providers and vendors.

	# of Common Shares	Amount \$
Balance, January 1, 2012	121,935,956	\$ 17,335,713
Expired warrants	-	<u>1,111,535</u>
Balance, December 31, 2012	<u>121,935,956</u>	<u>18,447,248</u>
Balance, January 1, 2013	121,935,956	18,447,248
Issued on settlement of debt	27,980,564	139,903
Expired warrants	-	<u>1,055,680</u>
Balance, September 30, 2013	<u>149,934,520</u>	<u>\$ 19,642,831</u>

b. Warrants

Details of warrant transactions for the period are as follows:

	# of Warrants	Amount \$	Wtd. Avg. Ex. Price
Balance, January 1, 2012	\$ 27,325,656	\$ 2,167,215	\$0.24
Expired warrants	<u>(12,491,108)</u>	<u>(1,111,535)</u>	<u>\$0.24</u>
Balance, December 31, 2012	<u>14,834,548</u>	<u>1,055,680</u>	<u>\$0.24</u>
Balance, January 1, 2013	14,834,548	1,055,680	\$0.24
Expired warrants	(14,834,548)	(1,055,680)	\$0.24
Warrants issued to creditors	<u>11,448,492</u>	<u>21,831</u>	<u>\$0.10</u>
Balance, September 30, 2013	<u>11,448,492</u>	<u>21,831</u>	<u>\$0.10</u>

Fair value of each warrant issued was estimated on the date of issuance using an option pricing model using the risk-free interest rate of 0.92%, dividend yield – nil, share price of \$0.005, stock price volatility of 112% and expected life of 5 years.

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c. Stock options

Details of stock option transactions for the nine month period ended September 30, 2013 are as follows:

	# of Options	Weighted Average Ex. Price
Balance January 1, 2013	6,753,499	\$0.21
Expired	(4,150,999)	\$0.18
Balance 30 September, 2013	2,602,500	\$0.21

c. Stock options (Continued)

The following table summarizes information about the options at September 30, 2013:

Expiry Dates	Exercise Price	# of Options Outstanding and Exercisable
Dec 24, 2013	\$0.15	650,000
Feb 15, 2014	\$0.195	150,000
Feb 15, 2014	\$0.23	186,000
Feb 15, 2014	\$0.25	97,750
Feb 15, 2014	\$0.315	125,000
May 14, 2014	\$0.315	150,000
Dec 3, 2014	\$0.21	300,000
Nov 19, 2020	\$0.25	270,000
April 8, 2021	\$0.195	275,000
May 4, 2021	\$0.23	187,500
Nov 29, 2021	\$0.14	211,250
		<u>2,602,500</u>

No stock options were exercised or issued during the nine month period ended September 30, 2013.

d. Contributed surplus

Balance, January 1, 2013	\$ 1,705,262
Reallocation of equity component of convertible debenture on debt settlement	<u>192,059</u>
Balance, September 30, 2013	<u>\$ 1,897,321</u>

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For the Nine Months Ended September 30, 2013

(Prepared in Canadian Dollars)

4. CONVERTIBLE DEBENTURES PAYABLE

The carrying value of the debentures payable is as follows:

Balance, December 31, 2012	\$ 1,099,515
Interest accrued for six months to June 13, 2013	\$ 45,334
Amount settled by the issuance of common shares	\$ (114,485)
Amount settled by the issuance of warrants	\$ (21,831)
Gain on settlement	\$ (1,008,533)
Balance, September 30, 2013	\$ -

In 2007, the Company issued two separate convertible debentures having a total face value of \$2,000,000 and maturing on March 28, 2010. The debentures are secured against all property and assets of the Company and bear interest at 10% per annum. Principal and interest was payable at maturity. On March 28, 2010, the Company negotiated an extension to the expiry of the debentures to June 11, 2010 with an additional extension to December 11, 2010 subject to the Company reducing the outstanding principal balance of both debentures to not less than \$1,000,000. The outstanding principal of each debenture was convertible into units of the Company at \$0.225 per unit until December 11, 2010. Each unit consisted of one common share and one-half of one warrant. Each whole warrant was exercisable for one common share at \$0.225 per share until the maturity date of the debentures. In addition, the Company issued to each holder warrants (the "Compensation Warrants") exercisable for up to 500,000 common shares at \$0.225 per share until the maturity date. On November 26, 2010, pursuant to a further extension agreement, the maturity date of the debentures was extended from December 11, 2010 to June 11, 2011. In consideration for the extension, the Company agreed to extend the expiry date of the Compensation Warrants from December 11, 2010 to June 11, 2011. In April 2011, the Company negotiated an extension of the debentures from June 11, 2011 to December 31, 2011. In consideration for the extension, the Company agreed to extend the expiry date of the Compensation Warrants from June 11, 2011 to December 31, 2011.

As a result of several amendments described above, the debentures matured on December 31, 2011 and each had \$510,719 in principal outstanding. From January 2012 until June 13, 2013, the debentures were reflected as current liabilities due on demand accruing interest at 10% per annum.

On 13 June 2013, the Company issued 22,896,986 common shares and warrants exercisable for up to 11,448,492 common shares for 5 years at \$0.10 per share in satisfaction of indebtedness of \$1,144,849 owed to the holders of the secured convertible debentures.

5. GAIN ON INDEBTEDNESS SETTLEMENT

During the nine months ended September 30, 2013 the Company issued 22,896,986 common shares at deemed value of \$1,144,849 and warrants exercisable for up to 11,448,492 common shares for five years at \$0.10 per share in satisfaction of indebtedness of \$1,144,849 owed to two holders of secured convertible debentures of the Company. The warrants were valued at \$21,831 using an option pricing model using the risk-free interest rate of 0.92%, dividend yield – nil, share price of \$.005, stock price volatility of 112% and expected life of 5 years.

During the nine months ended September 30, 2013 the Company has issued an additional 5,038,578 common shares at a deemed value of \$254,179 in satisfaction of indebtedness of \$319,712 owed to service providers and vendors.

Gain on settlement of convertible debenture	\$1,008,534
Gain on settlement of other payables	\$ 294,294
Total gain on settlement of debt	<u>\$ 1,302,828</u>

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(Prepared in Canadian Dollars)

6. RELATED PARTY TRANSACTIONS

During 2013, the Company had the following transactions with officers, directors or entities under the control or significant influence of officers and directors that have not been disclosed elsewhere in the consolidated financial statements:

During 2013, the Company had the following transactions with officers, directors or entities under the control or significant influence of officers and directors. Included in professional fees are legal fees and disbursements of \$23,412 (For the nine months ended 30 September 2012 - \$19,652) to Garfinkle Biderman LLP, a law firm in which certain officers are partners (Barry M. Polisuk) and former partners (Robbie Grossman). At September 30, 2013, \$28,330 owed to Garfinkle Biderman LLP is included in accounts payable and accrued liabilities (30 September 2012 - \$11,016).

Included in professional fees are \$6,750 (For the nine months ended 30 September 2012 - \$67,431) paid to Nick Tsimidis, a former director and officer for CFO services pursuant to a consulting agreement. At September 30, 2013, \$39,818 (30 September 2012 - \$31,400) was in accounts payable and accrued liabilities.

Fees in the amount of \$ Nil (For the nine months ended 30 September 2012 - \$62,070) were paid to Darrell Brown, former CEO of the Company. These services were provided pursuant to a consulting agreement. At September 30, 2013 \$13,125 (30 September 2012 - \$13,125) of this amount is included in accounts payable and accrued liabilities.

Key Management Compensation

The compensation of the directors and other key management of the Company are included in the summary table below. Key management is those persons having authority and responsibility for planning, directing and controlling the activities, directly or indirectly, of the Company.

	9 Months to <i>September 30 2013</i>	9 Months to <i>September 30, 2012</i>
Short-term compensation	\$ 6,750	\$206,998
Stock-based compensation	<u>\$ -</u>	<u>\$ 35,652</u>
Total	<u>\$ 6,750</u>	<u>\$ 241,650</u>

These transactions are in the normal course of operations.

7. MANAGEMENT OF CAPITAL

There were no changes in the Company's approach to capital management during the nine months ended September 30, 2013. The Company's capital includes equity comprised of share capital, warrants and broker warrants, contributed surplus and deficit. To date, the Company has not declared any cash dividends to its shareholders as part of its capital management program.

8. RISK MANAGEMENT

The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's risk management policies are established to identify and analyze the risks faced by the Company, to set appropriate risk limits and controls, and to monitor risks and adherence to market conditions in relation to the Company's activities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant price, credit, liquidity, or cash flow risks arising from the financial instruments.

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(Prepared in Canadian Dollars)

Credit risk

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents, sundry receivable and segregated cash. Cash and cash equivalents are held at large Canadian Financial Institutions.

The Company is not aware of any issues which would impact the recovery of these deposits. The Company has no significant concentration of credit risk arising from operations. Management believes the risk of loss to be remote.

Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company maintains a majority of its surplus funds in interest bearing accounts with Canadian financial institutions, which pay interest at a floating rate. The interest on the convertible debentures payable is fixed.

Liquidity risk

Liquidity risk is the risk that an entity will encounter difficulty in meeting obligations associated with financial liabilities. The Company's approach to managing liquidity is to ensure, as far as possible, that it will have sufficient liquidity to meet its liabilities when due, under both normal and stressed conditions, without incurring unacceptable losses which may damage the Company's reputation.

The Company monitors and reviews current and future cash requirements and matches the maturity profile of financial assets and liabilities. This is generally accomplished by ensuring that cash is always available to settle financial liabilities. All of the Company's financial liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.