

DECLAN RESOURCES INC.
(formerly Kokanee Minerals Inc.)

CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)

SEPTEMBER 30, 2012 AND 2011

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Declan Resources Inc.
(formerly Kokanee Minerals Inc.)

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

Management's Responsibility for the Consolidated Financial Statements

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

Auditors' Responsibility

Our responsibility is to express an opinion on these consolidated 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 consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the consolidated 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 consolidated 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 consolidated financial statements.

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

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Declan Resources Inc. (formerly Kokanee Minerals 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 September 30, 2011 in accordance with International Financial Reporting Standards.

“DAVIDSON & COMPANY LLP”

Vancouver, Canada

Chartered Accountants

January 24, 2013



DECLAN RESOURCES INC.
(formerly Kokanee Minerals Inc.)
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

	Notes	September 30, 2012	September 30, 2011 (Note 20)	October 1, 2010 (Note 20)
ASSETS				
Current				
Cash	5	\$ 3,650,417	\$ 259,782	\$ 55,946
Receivables	6	105,183	4,000	-
Exploration advances	7	207,789	-	200,961
Prepaid expense	8	13,635	-	45
		<u>3,977,024</u>	<u>263,782</u>	<u>256,952</u>
Deferred financing costs	13	-	71,784	-
Exploration and evaluation assets	9	2,483,944	-	93,591
Reclamation claim deposit		-	-	11,635
		<u>\$ 6,460,968</u>	<u>\$ 335,566</u>	<u>\$ 362,178</u>
LIABILITIES				
Current				
Accounts payable and accrued liabilities	10	\$ 737,699	\$ 511,244	\$ 757,547
Notes payable	11	-	265,883	-
		<u>737,699</u>	<u>777,127</u>	<u>757,547</u>
SHAREHOLDERS' EQUITY (DEFICIENCY)				
Share capital	13	13,737,183	4,079,851	1,449,018
Share subscriptions received in advance	13	-	257,450	-
Share-based payment reserve	13	492,261	215,622	268,069
Deficit		(8,506,175)	(4,994,484)	(2,112,456)
		<u>5,723,269</u>	<u>(441,561)</u>	<u>(395,369)</u>
		<u>\$ 6,460,968</u>	<u>\$ 335,566</u>	<u>\$ 362,178</u>

Nature of operations and going concern (Note 1)

Commitment (Note 18)

Subsequent events (Note 21)

These consolidated financial statements are authorized for issue by the Board of Directors on January 24, 2013.

They are signed on the Company's behalf by:

/s/ Michelle Gahagan

Director

/s/ Garry Clark

Director

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

DECLAN RESOURCES INC.
(formerly Kokanee Minerals Inc.)
CONSOLIDATED STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian dollars)
YEAR ENDED SEPTEMBER 30

	Notes	2012	2011 (Note 20)
EXPENSES			
Consulting fees		\$ 3,755	\$ 14,464
Exploration and evaluation expenditures	9	1,033,194	1,128,975
Foreign exchange		1,533	-
Insurance		17,500	-
Interest expense		35,268	31,128
Investor relations		16,870	52,455
Management fees		222,325	131,660
Office and miscellaneous		56,853	14,201
Professional fees		352,994	153,427
Property investigation		8,741	-
Share-based payments	13	198,439	374,811
Transfer agent and filing fees		30,518	35,823
Travel		169,789	25,920
Operating loss		(2,147,779)	(1,962,864)
Exploration advances recovery (written-off)	18	181,699	(813,938)
Exploration and evaluation assets written-off	9	(1,594,000)	(93,591)
Reclamation claim deposit written-off		-	(11,635)
Interest income		48,389	-
Loss and comprehensive loss for the year		\$ (3,511,691)	\$ (2,882,028)
Basic and diluted loss per common share		\$ (0.04)	\$ (0.10)
Weighted average number of common shares outstanding		88,370,795	27,891,336

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

DECLAN RESOURCES INC.
(formerly Kokanee Minerals Inc.)
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)
YEAR ENDED SEPTEMBER 30

	2012	2011
		(Note 20)
CASH FLOWS USED IN OPERATING ACTIVITIES		
Loss for the year	\$ (3,511,691)	\$ (2,882,028)
Items not affecting cash:		
Share-based payments	276,639	374,811
Exploration and evaluation assets written-off	1,594,000	93,591
Exploration and evaluation advances written-off (recovered)	(181,699)	813,938
Reclamation claim deposit written-off	-	11,635
Interest accretion	34,117	15,694
Changes in non-cash working capital:		
(Increase) in receivables	(79,467)	(4,000)
(Increase) in exploration advances	-	(612,977)
(Increase) in prepaid expenses	(13,635)	45
(Decrease) in accounts payable and accrued liabilities	(131,584)	(277,274)
Net cash used in operating activities	<u>(2,013,320)</u>	<u>(2,466,565)</u>
CASH FLOWS USED IN INVESTING ACTIVITIES		
Exploration and evaluation assets	(1,000,000)	-
Acquisition of Talos	(90,323)	-
Purchase of cash on acquisition of subsidiary	126,633	-
Net cash used in investing activities	<u>(963,690)</u>	<u>-</u>
CASH FLOWS FROM FINANCING ACTIVITIES		
Issuance of share capital for cash	7,243,350	2,188,585
Share issue costs	(544,734)	(34,821)
Share subscriptions received in advance	-	257,450
Deferred financing costs	30,971	(40,813)
Notes payable (repaid) received	(300,000)	300,000
Net cash from financing activities	<u>6,367,645</u>	<u>2,670,401</u>
Increase in cash for the year	3,390,635	203,836
Cash, beginning of the year	<u>259,782</u>	<u>55,946</u>
Cash, end of the year	<u>\$ 3,650,417</u>	<u>\$ 259,782</u>
Supplemental Disclosure of Cash Flow Information:		
Shares paid for interest payments	\$ 1,151	\$ 49,811
Shares issued for exploration and evaluation assets	594,000	-
Shares issued for finder fee	-	37,500
Share subscriptions received in advance	257,450	-
Common shares and options issued for acquisition of Talos	2,280,500	-
Deferred financing cost included in accounts payable	30,971	30,971
Allocation of deferred financing costs to share capital	40,813	-
Fair value of options and warrants exercised	-	427,258
Interest and income taxes	-	-

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

DECLAN RESOURCES INC.
(formerly Kokanee Minerals Inc.)
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY (DEFICIENCY)
(Expressed in Canadian dollars)

	Note	Number of Shares	Share Capital	Share Subscription	Share- based Payments Reserves	Deficit	Total Equity (Deficiency)
Balance, October 1, 2010		18,873,913	\$ 1,449,018	\$ -	\$ 268,069	\$(2,112,456)	\$ (395,369)
Loss and comprehensive loss		-	-	-	-	(2,882,028)	(2,882,028)
Share-based compensation		-	-	-	374,811	-	374,811
Share subscriptions receivable		-	-	257,450	-	-	257,450
Shares issued for private placement		7,443,332	1,116,500	-	-	-	1,116,500
Shares issued for finder fees		250,000	37,500	-	-	-	37,500
Shares issued for options exercised		3,354,283	1,157,122	-	(388,551)	-	768,571
Shares issued for warrants exercised		1,607,017	342,221	-	(38,707)	-	303,514
Shares issued for loan bonus		226,414	49,811	-	-	-	49,811
Share issue costs		-	(72,321)	-	-	-	(72,321)
Balance, September 30, 2011		31,754,959	4,079,851	257,450	215,622	(4,994,484)	(441,561)
Loss and comprehensive loss		-	-	-	-	(3,511,691)	(3,511,691)
Share-based compensation		-	-	-	198,439	-	198,439
Shares issued for exploration and evaluation assets	9	2,700,000	594,000	-	-	-	594,000
Shares issued for private placement	13	50,000,000	7,500,000	(257,450)	-	-	7,242,550
Shares issued for warrants exercised		4,000	800	-	-	-	800
Shares issued for acquisition of Talos Minerals Ltd.	4	24,470,002	2,202,300	-	-	-	2,202,300
Options issued for acquisition of Talos Minerals Ltd.		-	-	-	78,200	-	78,200
Share issue costs		-	(616,518)	-	-	-	(616,518)
Recovery of shares	18	(575,285)	(23,250)	-	-	-	(23,250)
Balance, September 30, 2012		108,353,676	\$13,737,183	\$ -	\$ 492,261	\$(8,506,175)	\$ 5,723,269

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

DECLAN RESOURCES INC.
(formerly Kokanee Minerals Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
YEAR ENDED SEPTEMBER 30, 2012

1. NATURE OF OPERATIONS AND GOING CONCERN

Declan Resources Inc. (formerly Kokanee Minerals Inc.) (“the Company”) was incorporated on August 25, 2005 under the Laws of British Columbia. The Company’s head office and registered and records office address is Suite 302 – 1620 West 8th Ave, Vancouver, BC, V6J 1V4, Canada. The Company is traded on the TSX Venture Exchange (“TSX-V”).

The consolidated financial statements of the Company are presented in Canadian dollars, which is the functional currency of the Company, unless otherwise indicated.

The Company is a mineral exploration company focused on acquiring, exploring and developing exploration and evaluation assets in Sierra Leone.

At the date of the consolidated financial statements, the Company has not identified a known body of commercial grade mineral on any of its exploration and evaluation assets. The ability of the Company to realize the costs it has incurred to date on exploration and evaluation assets is dependent upon the Company identifying a commercial mineral body, to finance its development costs and to resolve any environmental, regulatory or other constraints which may hinder the successful development of the exploration and evaluation assets. To date, the Company has not earned any revenues and is considered to be in the exploration stage.

Management is actively targeting sources of additional financing through alliances with financial, exploration and mining entities, and other business and financial transactions which would assure continuation of the Company’s operations and exploration programs. In addition, management closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company if favorable or adverse market conditions occur.

The Company estimates it has sufficient working capital to continue operations for the upcoming year.

2. BASIS OF PRESENTATION

Statement of compliance and conversion to International Financial Reporting Standards

These consolidated financial statements, including comparatives, are audited and have been prepared in accordance with International Accounting Standards (“IAS”), “Presentation of Financial Statements” using accounting policies consistent with International Financial Reporting Standards (“IFRS”) as issued by the International Accounting Standards Board (“IASB”) and interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”).

The Company’s transition date to IFRS is October 1, 2010. The rules for first-time adoption of IFRS are set out in IFRS 1, “First-time adoption of International Financial Reporting Standards”. In preparing the Company’s first IFRS financial statements, these transition rules have been applied to the amounts previously reported in accordance with Canadian Generally Accepted Accounting Principles (“GAAP”). Historical results and balances have been restated under IFRS. These consolidated financial statements should be read in conjunction with the Company’s 2010 GAAP annual financial statements, and in consideration of the disclosure regarding the transition from GAAP to IFRS included in Note 20.

DECLAN RESOURCES INC.
(formerly Kokanee Minerals Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

2. BASIS OF PRESENTATION (cont'd...)

Statement of compliance and conversion to International Financial Reporting Standards (cont'd...)

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value as explained in the accounting policies set out in Note 3. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The comparative figures presented in these consolidated financial statements are in accordance with IFRS.

These consolidated financial statements were authorized by the Audit Committee and Board of Directors of the Company on January 24, 2013.

Use of estimates and judgments

The preparation of this consolidated financial statement requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the consolidated financial statement. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- i) The carrying value and the recoverability of exploration and evaluation assets, which are recorded at cost and reviewed for impairment at the end of each reporting period.
- ii) Share-based payments may include the use of valuation models and significant underlying assumptions.
- iii) Deferred income taxes.

Determination of functional currency

The functional currency is the currency of the primary economic environment in which the entity operates. Management has determined that the functional currency for the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

3. SIGNIFICANT ACCOUNTING POLICIES

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its subsidiary companies. Inter-company balances and transactions, and any unrealized income and expenses arising from inter-company transactions, are eliminated in preparing the consolidated financial statements.

DECLAN RESOURCES INC.
(formerly Kokanee Minerals Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Name of Subsidiary	Place of Incorporation	Proportion of Ownership	
		Interest	Principal Activity
TalosMinerals Ltd.	Canada	100%	Holding Company
Revonah Resources (SL) Ltd.	Sierra Leone	85%	Exploration in Sierra Leone
Greenstone Minerals (SL) Ltd.	Sierra Leone	85%	Exploration in Sierra Leone

Foreign exchange

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the statement of financial position date while non-monetary assets and liabilities are translated at historical rates. Expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are recognized through profit or loss.

Financial instruments

Financial assets

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

Fair value through profit or loss - This category comprises derivatives, or assets acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized through 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 carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized through profit or loss.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized through profit or loss.

The Company has not classified any financial assets as held-to-maturity or available for sale.

DECLAN RESOURCES INC.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial instruments (cont'd...)

Financial assets (cont'd...)

All financial assets except for those at fair value through profit or loss are subject to review for impairment at each reporting date. Financial assets are impaired when there is any objective evidence as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the instruments have been impacted. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

The Company has classified its cash as fair value through profit and loss. The Company's receivables are classified as loans and receivables.

Financial liabilities

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

Fair value through profit or loss - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized through profit or loss.

Other financial liabilities: These liabilities are initially recognized at fair value less directly attributable costs. After initial recognition, other financial liabilities are subsequently measured at amortized cost using the effective interest method. The Company's accounts payable and accrued liabilities and notes payable are classified as other financial liabilities.

Exploration and evaluation assets

Costs related to the acquisition of exploration and evaluation assets are capitalized by property until the commencement of commercial production. Costs incurred before the Company has obtained the legal rights to explore an area are recognized through profit or loss.

Costs related to exploration costs of exploration and evaluation assets, incurred prior to the determination of the feasibility of mining operations and a decision to proceed with development, are charged to operations as incurred. Development expenditures incurred subsequent to a development decision, and to increase or to extend the life of existing production, are capitalized and will be amortized on the unit-of-production method based upon estimated proven and probable reserves.

If commercially profitable ore reserves are developed, capitalized costs of the related exploration and evaluation assets are reclassified as mining assets and amortized using the unit-of-production method. If, after management review, it is determined that capitalized acquisition costs are not recoverable over the estimated economic life of the exploration and evaluation assets, or the exploration and evaluation assets are abandoned, or management deems there to be an impairment in value, the exploration and evaluation assets are written down to their net realizable value.

DECLAN RESOURCES INC.
(formerly Kokanee Minerals Inc.)
NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Exploration and evaluation assets (cont'd...)

Any option payments received by the Company from third parties are credited to the capitalized cost of the exploration and evaluation assets. If payments received exceed the capitalized cost of the exploration and evaluation assets, 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 the end of each reporting period, the carrying value of the Company's assets are reviewed to determine whether there is any indication that those assets may be impaired. If 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. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a discount rate that reflects current market assessments of the time value of money and the risks specific to 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 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 to an amount that 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.

Provision for environmental rehabilitation

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of exploration and evaluation assets and equipment, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future rehabilitation cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to the related asset along with a corresponding increase in the rehabilitation 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 rehabilitation asset is depreciated on the same basis as related assets.

The Company's estimates of reclamation 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 the related asset with a corresponding entry to the rehabilitation 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 or loss.

DECLAN RESOURCES INC.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Loss per share

The Company presents basic loss per share for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted loss per share does not adjust the loss attributable to common shareholders or the weighted average number of common shares outstanding when the effect is anti-dilutive.

Share-based payment transactions

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to capital stock.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

Income taxes

Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

DECLAN RESOURCES INC.
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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

Future accounting pronouncements

A number of new standards, amendments to standards and interpretations are not yet effective, and have not been applied in preparing this consolidated financial statement. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its consolidated financial statements.

Accounting Standards issued and Effective January 1, 2013

Consolidated financial statements

IFRS 10 *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This standard:

- i) requires a parent entity (an entity that controls one or more other entities) to present consolidated financial statements.
- ii) defines the principle of control, and establishes control as the basis for consolidation.
- iii) sets out how to apply the principle of control to identify whether an investor controls an investee and therefore must consolidate the investee.
- iv) sets out the accounting requirements for the preparation of consolidated financial statements. IFRS 10 supersedes IAS 27 *Consolidated and Separate Financial Statements* and SIC-12 *Consolidation-Special Purpose Entities*.

Joint Ventures

IFRS 11 *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

Disclosure of involvement with other entities

IFRS 12 *Disclosure of Involvement with Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effect of those interest on its financial position, financial performance and cash flows.

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NOTES TO THE CONSOLIDATED FINANCIAL STATEMENTS
(Expressed in Canadian dollars)
FOR THE YEAR ENDED SEPTEMBER 30, 2012

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Future accounting pronouncements (cont'd...)

Fair value measurement

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS a framework for measuring fair value and requires disclosure about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less cost to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 Share-based payment; leasing transactions within the scope of IAS 17 Leases; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

Separate financial statements

IAS 27 *Separate Financial Statements* has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

Investment in associates and joint ventures

IAS 28 *Investments in Associates and Joint Ventures* prescribes the accounting for investment in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

Financial instruments: presentation

The IASB amended IAS 32, "Financial Instruments: Presentation" to clarify certain aspects because of diversity in application of the requirements on offsetting, focused on four main areas:

- the meaning of 'currently has a legally enforceable right of set-off';
- the application of simultaneous realization and settlement;
- the offsetting of collateral amounts; and
- the unit of account for applying the offsetting requirements.

The amended standard is effective for annual periods beginning on or after January 1, 2014.

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3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Future accounting pronouncements (cont'd...)

Financial instruments

In November 2009, the IASB published IFRS 9, "Financial Instruments", which covers the classification and measurement of financial assets as part of its project to replace IAS 39, "Financial Instruments: Recognition and Measurement." In October 2010, the requirements for classifying and measuring financial liabilities were added to IFRS 9. Under this guidance, entities have the option to recognize financial liabilities at fair value through earnings. If this option is elected, entities would be required to reverse the portion of the fair value change due to their own credit risk out of earnings and recognize the change in other comprehensive income. IFRS 9 is effective on January 1, 2015. Early adoption is permitted and the standard is required to be applied retrospectively.

4. ACQUISITION OF TALOS MINERALS LTD.

The Company acquired an 85% interest in certain Sierra Leone mineral properties (Note 9) through the purchase of 100% of the voting shares of Talos Minerals Ltd. ("Talos") in exchange for the issue of 24,470,002 common shares valued at \$2,202,300 and 1,500,000 stock options valued at \$78,200.

On July 12, 2012, the Company purchased 100% of the shares of Talos. The transaction was treated as an asset acquisition. A summary of the net assets acquired is as follows:

Cash	\$ 126,633
Receivables	21,716
Deposits	207,789
Exploration and evaluation assets	2,483,944
Accounts payable and accrued liabilities	(17,459)
Loans payable	(400,000)
Due to Declan	<u>(130,000)</u>
Net assets acquired	\$ 2,292,623

Consideration paid:	
Common shares	\$ 2,202,300
Stock options	78,200
Other acquisition costs	<u>12,123</u>
Total consideration paid	\$ 2,292,623

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5. CASH

In Canadian dollars	September 30, 2012	September 30, 2011	October 1, 2010
Canadian dollar denominated deposits	\$ 3,510,096	\$ 259,782	\$ 55,946
United States dollar denominated deposits	140,320	-	-
Leones denominated deposits	1	-	-
Total	\$ 3,650,417	\$ 259,782	\$ 55,946

6. RECEIVABLES

In Canadian dollars	September 30, 2012	September 30, 2011	October 1, 2010
Subscriptions receivable	\$ -	\$ 4,000	\$ -
HST Receivable	53,566	-	-
Other Receivables	14,582	-	-
Interest receivable	37,035	-	-
Total	\$ 105,183	\$ 4,000	\$ -

7. EXPLORATION ADVANCES

In Canadian dollars	September 30, 2012	September 30, 2011	October 1, 2010
Exploration advances	\$ 207,789	\$ -	\$ 200,961
Total	\$ 207,789	\$ -	\$ 200,961

8. PREPAID EXPENSE

In Canadian dollars	September 30, 2012	September 30, 2011	October 1, 2010
Prepaid rent	\$ 5,000	\$ -	\$ 45
Prepaid management fees	6,000	-	-
Prepaid other	2,635	-	-
Total	\$ 13,635	\$ -	\$ 45

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9. EXPLORATION AND EVALUATION ASSETS

The details of exploration and evaluation assets and expenditures during the years ended September 30, 2012 and 2011 are as follows:

a) Acquisition costs

Schedule of exploration and evaluation assets for the year ended September 30, 2012 is as follows:

	Sierra Leone Properties 9(c)	Tanzania Morogoro 9(e)	Tanzania Handeni 9(f)	Total
Acquisition costs				
Balance, September 30, 2011	\$ -	\$ -	\$ -	\$ -
Additional costs:				
Cash	-	500,000	500,000	1,000,000
Shares and options	<u>2,483,944</u>	<u>264,000</u>	<u>330,000</u>	<u>594,000</u>
Written-off	<u>2,483,944</u>	<u>764,000</u>	<u>830,000</u>	<u>1,594,000</u>
	<u>-</u>	<u>(764,000)</u>	<u>(830,000)</u>	<u>(1,594,000)</u>
Total acquisition costs, September 30, 2012	\$ 2,483,944	\$ -	\$ -	\$ -

Schedule of exploration and evaluation assets for the year ended September 30, 2011 is as follows:

	Tanzania Jackson Gold Project 9(d)	Tanzania Morogoro 9(e)	Tanzania Handeni 9(f)	Total
Acquisition costs				
Balance, October 1, 2010	\$ 93,591	\$ -	\$ -	\$ 93,591
Written-off	<u>(93,591)</u>	<u>-</u>	<u>-</u>	<u>(93,591)</u>
Total acquisition costs, September 30, 2011	\$ -	\$ -	\$ -	\$ -

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9. EXPLORATION AND EVALUATION ASSETS (cont'd...)

b) Exploration and evaluation expenditures

Schedule of exploration and evaluation expenditures for the year ended September 30, 2012 is as follows:

	Sierra Leone Properties 9(c)	Tanzania Morogoro 9(e)	Tanzania Handeni 9(f)	Expenditure Total for Year
Exploration and evaluation expenditures				
Camp	\$ 275,761	\$ -	\$ -	\$ 275,761
Consulting fees	91,659	6,532	74,824	173,015
Drilling and exploration fees	76,910	-	-	76,910
Equipment rental	-	-	15,200	15,200
Field crew and related expenses	25,346	300	23,306	48,952
Geological	215,158	-	85,603	300,761
Insurance and permits	-	-	-	-
Supplies and miscellaneous	47,833	-	56,838	104,671
Travel and accommodation	<u>3,826</u>	<u>600</u>	<u>33,498</u>	<u>37,925</u>
September 30, 2012	\$ 736,493	\$ 7,432	\$ 289,269	\$ 1,033,194

Schedule of exploration and evaluation expenditures for the year ended September 30, 2011 is as follows:

	Tanzania Jackson Gold Project 9(d)	Tanzania Morogoro 9(e)	Tanzania Handeni 9(f)	Expenditure Total for Year
Exploration and evaluation expenditures				
Consulting fees	\$ -	\$ 155,896	\$ 129,764	\$ 285,660
Drilling and exploration fees	-	5,500	22,623	28,123
Equipment rental	305,285	-	-	305,285
Field crew and related expenses	-	88,750	153,859	242,609
Geological	-	7,000	76,250	83,250
Option and lease	-	-	8,604	8,604
Supplies and miscellaneous	9,353	7,100	14,248	30,701
Travel and accommodation	<u>60,745</u>	<u>13,753</u>	<u>70,245</u>	<u>144,743</u>
September 30, 2011	\$ 375,383	\$ 277,999	\$ 475,593	\$ 1,128,975

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9. EXPLORATION AND EVALUATION ASSETS (cont'd...)

c) Sierra Leone Properties

The Company acquired 85% of the issued and outstanding shares of Revonah Resources (SL) Ltd. ("Revonah") and Greenstone Minerals (SL) Ltd. ("Greenstone") through the acquisition of Talos (Note 4). Revonah and Greenstone hold interests in certain exploration licenses located in Sierra Leone.

Upon the properties reaching the pre-feasibility stage, the Company has the right of first refusal to acquire the remaining 15% interest.

d) Morogoroarea of Tanzania

On May 2, 2011, the Company entered into an option agreement, subsequently amended, with companies owned by a former common director to acquire an 80% interest in a prospective property in the Morogoro area of east central Tanzania (the "MEG South Property") for payments of \$2,000,000 over four years, the issuance of 1,200,000 common shares and an exploration work commitment of \$3,250,000 to be expended over the next five years.

During fiscal 2012, the Company paid \$500,000 and issued 1,200,000 common shares valued at \$264,000.

As of September 30, 2012, management decided to discontinue exploration on the property and the Company recorded a write-off of \$764,000.

e) Handeni area of Tanzania

On May 2, 2011, the Company entered into an option agreement with companies owned by a former director to acquire an 80% interest in a prospective property in the Handeni area of Tanzania (the "Handeni North 500 Property") for cash payments of \$3,000,000 over three years, the issuance of 1,500,000 common shares and an exploration work commitment of \$6,500,000 to be expended over the next five years.

During fiscal 2012, the Company paid \$500,000 and issued 1,500,000 common shares valued at \$330,000.

The Company terminated the Handeni agreement on October 7, 2012, and wrote off \$830,000 as at the year ended September 30, 2012.

f) Jackson Gold Project, Bulyanhulu-Geita area of Tanzania

On September 7, 2010, the Company entered into an option agreement to acquire 51% interest for US\$375,000 payable in instalments (US\$75,000 paid). Upon completion, the Company could purchase up to an additional 29% interest in the property and thereafter an additional 15% interest for specified payments of cash and issuances of shares.

As of September 30, 2011, management decided to discontinue the exploration on the property. The Company recorded a write-off of \$93,591 for the year ended September 30, 2011.

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10. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Falling due within the next twelve months	September 30, 2012	September 30, 2011	October 1, 2010
Accounts payable	\$ 287,699	\$ 446,244	\$ 722,547
Loans payable	400,000	-	-
Accrued liabilities	50,000	65,000	35,000
Total	\$ 737,699	\$ 511,244	\$ 757,547

The average credit period of purchases is one month. The Company has financial risk management policies in place to ensure that all payables are paid within the pre-agreed credit terms.

11. NOTES PAYABLE

Falling due within the next twelve months	September 30, 2012	September 30, 2011	October 1, 2010
Notes payable	\$ -	\$ 265,883	\$ -
Total	\$ -	\$ 265,883	\$ -

On May 13, 2011, the Company issued notes payable for proceeds of \$300,000, of which \$150,000 was from a former director, bearing interest at 10% per annum payable in cash. A loan bonus of 226,414 common shares was issued at a value of \$49,811 to the lenders which offset the notes payable resulting in an effective rate of interest of approximately 27%. The loan bonus was accreted to interest over the term of the loan. The loan was paid off in full on October 14, 2011.

12. INCOME TAXES

The following table reconciles the amount of income tax recoverable on application of the combined statutory Canadian federal and provincial income tax rates:

The net loss for accounting purposes differs from the taxable income as follows:

	2012	2011
Loss before income taxes	\$ (3,511,691)	\$ (2,882,028)
Expected income tax (recovery)	(891,000)	(778,000)
Change in statutory, foreign tax, foreign exchange rates and other	(119,000)	69,000
Permanent difference	(51,000)	102,000
Share issue costs	(156,000)	(33,000)
Tax impact on acquisition of Talos Minerals Ltd.	(191,000)	-
Change in unrecognized deductible temporary differences and other	1,306,000	640,000
Total income taxes	\$ -	\$ -

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12. INCOME TAXES (cont'd...)

Significant components of the Company's unrecorded deferred tax assets are shown below:

	2012	2011
Deferred tax assets:		
Non-capital losses	\$ 729,000	\$ 365,000
Deferred financing costs (share issue costs)	164,000	59,000
Exploration and evaluation assets	<u>1,580,000</u>	<u>743,000</u>
Unrealized deferred tax assets	<u>\$ 2,473,000</u>	<u>\$ 1,167,000</u>

As at September 30, 2012, the Company has non-capital losses carry forward for income tax purposes of approximately \$2,870,000 which may be deducted against future years' taxable income expiring through to 2032. The Company has mineral exploration and development expenditures of approximately \$5,785,000 available to reduce certain types of taxable income of future years. The Company has not recognized any deferred tax assets as it is not probable they will be realized.

13. SHARE CAPITAL AND RESERVES

a) Authorized share capital

An unlimited number of common shares without par value.

b) Issued share capital

In the year ended September 30, 2012, the Company:

- i) issued 50,000,000 units pursuant to a non-brokered private placement for total proceeds of \$7,500,000. Each unit consisted of one common share of the Company and one share purchase warrant having a one year term for purchasing of one further common share at exercise price of \$0.30 per share. Finder's fees paid totalled \$517,707. As at September 30, 2011, the Company had received \$257,450 of advance subscriptions and had incurred \$71,784 in costs related to the financing.
- ii) issued 2,700,000 common shares valued at \$594,000 as option payments pursuant to the Morogoro and Handeni option agreements (Note 9).
- iii) issued 4,000 common shares pursuant to warrants exercised for gross proceeds of \$800.
- iv) issued 24,470,002 common shares with a value of \$2,202,300 for the acquisition of 100% of Talos Minerals Ltd. (Note 4).
- v) recorded a recovery of 575,285 common shares valued at \$23,250 pursuant to an arbitration settlement (Note 18).

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13. SHARE CAPITAL AND RESERVES (cont'd...)

b) Issued share capital (cont'd...)

In the year ended September 30, 2011, the Company:

- i) In December 2010, the Company issued 7,443,332 units for total proceeds of \$1,116,500. Each unit consists of one common share of the Company and one share purchase warrant having a two-year term for the purchase of one further common share of the Company in the first year the exercise price of \$0.20 per shares after first year the exercise price is \$0.25 per share. Finders' fees paid consisted of \$22,050 in cash and 250,000 shares value at \$37,500.
- ii) As of September 30, 2011, a total of 3,354,283 options were exercised for gross proceeds of \$768,571.
- iii) As of September 30, 2011, a total of 1,607,017 warrants were exercised for gross proceeds of \$299,514.
- iv) On September 20, 2011, the Company issued 226,414 common shares as loan bonuses with a value of \$49,811 (Note 6).

c) Stock options

Pursuant to the policies of the TSX-V, the Company may grant incentive stock options to its officers, directors, employees and consultants. The Company has implemented a fixed Stock Option Plan (the "Plan") whereby the Company has reserved 10% of the issued shares for issuance under the Plan. Options have a maximum term of five years and terminate after a certain number of days following the termination of the optionee's term/employment, except in the case of death, in which case they terminate one year after the event. Vesting is determined by the Board of Directors.

At September 30, 2012, the Company had outstanding stock options enabling the holders to acquire further common shares as follows:

Number of options	Number of Vested and exercisable	Exercise price	Weighted average remaining life (years)	Expiry Date
1,500,000	500,000	\$ 0.15	4.78	July 12, 2017
4,850,000	1,616,667	\$ 0.16	4.95	September 11, 2017
6,350,000	2,116,667			

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13. SHARE CAPITAL AND RESERVES (cont'd...)

e) Stock options (cont'd...)

A summary of the Company's stock options is presented below:

	Number of Outstanding Options	Weighted Average Exercised Price
Balance, October 1, 2010	1,887,392	\$ 0.25
Granted	2,800,000	0.21
Exercised	(3,354,283)	0.23
Forfeited	<u>(188,739)</u>	0.25
Balance, September 30, 2011 – outstanding and exercisable	1,144,370	\$ 0.21
Granted	6,350,000	0.16
Forfeited	<u>(1,144,370)</u>	0.21
Balance, September 30, 2012 – outstanding	<u>6,350,000</u>	<u>\$ 0.16</u>
Balance, September 30, 2012 – exercisable	<u>2,166,667</u>	<u>\$ 0.16</u>

d) Share purchase warrants

As of September 30, 2012, the following warrants were outstanding:

Expiry Date	Weighted average Contractual Life Remaining	Outstanding	Exercise Price
January 15, 2015	2.29	6,854,100	\$ 0.25
January 15, 2015	2.29	442,208	0.15
October 8, 2012*	0.24	7,439,332	0.25
October 7, 2012*	0.28	<u>50,000,000</u>	0.30
		<u>64,735,640</u>	

* Expired subsequent to September 30, 2012

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13. SHARE CAPITAL AND RESERVES (cont`d...)

d) Share purchase warrants (cont`d...)

A summary of the Company's warrants is presented below:

	Number of Outstanding Warrants	Weighted Average Exercise Price
Balance, October 1, 2010	8,903,325	\$ 0.20 ⁽¹⁾
Granted	7,443,332	0.20 ⁽²⁾
Exercised	<u>(1,607,017)</u>	0.19
Balance, September 30, 2011	14,739,640	\$ 0.20
Granted	50,000,000	0.30
Exercised	<u>(4,000)</u>	0.25
Balance, September 30, 2012	64,735,640	\$ 0.29

⁽¹⁾ Exercisable at \$0.20 for the first two years from issuance and \$0.25 for the three years thereafter.

⁽²⁾ Exercisable at \$0.20 for the first year from issuance and \$0.25 for the one year thereafter.

e) Share-based payments

During the year ended September 30, 2012, the Company granted 6,350,000 (2011 - 2,800,000) stock options with a fair value of \$617,242, of which \$78,200 related to an asset acquisition (Note 4). During the year ended September 30, 2012, the Company expensed \$198,439 (2011 - \$374,811) relating to the first tranche of options granted during the period, or \$0.09 (2011 - \$0.09) per option. These will vest over a period of three years.

The options were valued using the Black-Scholes option pricing model under the following weighted average assumptions:

	2012	2011
Risk free interest rate	1.2%	2.44%
Expected dividend yield	-	-
Stock price volatility	93%	128%
Expected life of options	4.9 years	1 year
Forfeiture rate	-	-

f) Escrow shares

As at September 30, 2012, 560,300 (September 30, 2011: 3,406,763) common shares were held in escrow.

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14. RELATED PARTY TRANSACTIONS

- a) The Company's related parties consist of companies owned in whole or in part by executive officers and directors as follows:

Name	Position and nature of transactions
Wayne Tisdale	President and CEO
Michelle Gahagan	Chairman of the Board
Craig McLean	Director
Michael Curtis	Director
Gordon King	Director
Garry Clark	Director
Kyle Michael	Director
Tyson King	Director
Jamal Shallop	Director
J. W. Jardine & Company INC.	CFO - Accounting services
Bullfrog Financial Inc.	former Director – Management services
Bahega Consulting	former Director - Management services
Kokanee Placer Inc.	former Director – Geological consulting
John Ulmer	former Director – Investor Relations
Manual Chan	former Director
David Hughes	former Director
Brian Tingle	former Director

Expenses have been measured at the exchange amount which is determined on a cost recovery basis.

Compensation of Key Management Personnel

Year ended	September 30, 2012	September 30, 2011
Management services	\$ 194,325	\$ 131,600
Investor relations	4,382	41,455
Interest	35,268	12,573
Geological consulting	240,000	1,265,103
Share-based payment	178,493	464,203
Accounting services	64,300	-
Total	\$ 716,768	\$ 1,914,934

The geological consulting amount of \$240,000 (2011 - \$1,265,103) represents amounts advanced to companies controlled by a former director. Included in accounts payable were amounts due to related parties at September 30, 2012 of \$419,035 (2011 - \$141,380), and \$Nil (2011 - \$209,949) due to a former director or a company owned by the former director, of which \$Nil (2011 - \$120,263) bears interest at 5% per annum.

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14. RELATED PARTY TRANSACTIONS (cont'd...)

a) (cont'd...)

Compensation of Key Management Personnel (cont'd...)

Included in accounts receivable at September 30, 2012 is \$14,582 due from an officer or director of the Company.

Included in accounts payable at September 30, 2012 is \$400,000 (2011 - \$Nil) owing to a company controlled by a director and to a director.

In July 2011, the Company received a \$300,000 short-term loan from companies with common directors. The loan was repaid in October 2011.

15. BASIC AND DILUTED LOSS PER SHARE

The calculation of basic and diluted loss per share for the year ended September 30, 2012, is based on the loss attributable to common shareholders of \$3,511,691 (2011 - \$2,882,028) and a weighted average number of common shares outstanding of 88,370,795 (2011 - 27,891,336).

16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial risk management

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 Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management framework. The Company's financial instruments consist of cash, receivables, accounts payable and accrued liabilities and notes payable.

The Company classified its cash as fair value through profit or loss; receivables as loans and receivables; and accounts payable and accrued liabilities and notes payable as other financial liabilities. The fair value of cash is measured on the statement of financial position using level 1 of the fair value hierarchy. The fair values of receivables, and accounts payable and accrued liabilities and notes payable approximate their book values because of the short-term nature of these instruments.

Financial instrument risk exposure

The Company is exposed in varying degrees to a variety of financial instrument related risks. The Board approves and monitors the risk management processes.

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16. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd...)

Credit risk

Credit risk is the risk of financial loss to the Company if a counterparty to a financial instrument fails to meet its payment obligations. The Company has no material counterparties to its financial instruments with the exception of the financial institutions which hold its cash. The Company manages this credit risk by ensuring that these financial assets are placed with a major financial institution with strong investment grade ratings by a primary ratings agency. The Company's receivables consist primarily of harmonized sales tax due from the government. The Company does not believe it has a material exposure to credit risk.

Liquidity risk

The Company ensures that there is sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash is invested in business accounts which are available on demand. The Company's only obligation is current accounts payable and accrued liabilities.

Interest rate risk

The Company is exposed to interest rate risk. The Company's bank account earns interest income at variable rates. The fair value of its portfolio is relatively unaffected by changes in short-term interest rates. The Company's future interest income is exposed to short-term rates. The effect of a one percent change in interest rates on the Company's invested cash would be approximately \$25,000.

Foreign exchange risk

The Company expects to continue to raise equity predominantly in Canadian dollars. In 2011 and going forward, the Company anticipates doing business in Africa which uses the US Dollar as its currency. As such, it is subject to risk due to fluctuations in the exchange rates between the U.S. and Canadian dollars. The Company does not enter into derivative financial instruments to mitigate its exposure to foreign currency risk. The effect of a one percent change in the foreign exchange rate on the Company's cash held in foreign currencies would be approximately \$1,000.

Commodity price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in pricing may be significant.

Political uncertainty

In conducting operations in other countries, the Company is subject to considerations and risks not typically associated with companies operating in North America. These include risks such as the political, economic and legal environments. Among other things, the Company's results may be adversely affected by changes in the political and social conditions, and by changes in governmental policies with respect to mining laws and regulations, anti-inflationary measures, currency conversion and remittance abroad, and rates and methods of taxation.

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17. MANAGEMENT OF CAPITAL

The Company manages its common shares, stock options and share purchase warrants as capital. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its exploration and evaluation assets and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk. The Company is not subject to any externally imposed capital requirements.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt or acquire or dispose of assets.

In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions.

In order to maximize ongoing exploration efforts, the Company does not pay out dividends. The Company's investment policy is to keep its cash treasury invested in certificates of deposit with major financial institutions.

The Company expects its current capital resources will be sufficient to carry its operations through its current operating year but in order to carry out new exploration programs the Company will need to raise additional capital through equity financing.

There have been no changes to the Company's approach to capital management during the year ended September 30, 2012.

18. COMMITMENT

The Company entered into an agreement to have its exploration management functions in Tanzania performed by a company controlled by a former director of the Company (resigned in December 2011). Pursuant to the agreement, the Company was to pay all of the operating costs and disbursements incurred on behalf of the Company. The compensation under the agreement is \$1,500 per day, subject to adjustment by the Company. The agreement was terminated on March 7, 2012 and the Company initiated an arbitration process, as contemplated by the agreement, to seek resolution to outstanding issues.

Subsequent to September 30, 2012, the arbitration was settled, whereby certain property payments and exploration commitments were reduced and extended, and all amounts owed to the former director and a company controlled by the former director, have been waived. In addition, 575,285 escrowed common shares of the Company were cancelled. A total recovery of \$181,699 was recorded by the Company for the year ended September 30, 2012.

19. SEGMENTED INFORMATION

The Company operates in one business segment being the acquisition and exploration of exploration and evaluation assets interests in Sierra Leone. The total assets attributable to the geographical locations relate primarily to exploration and evaluation assets that have been disclosed in Note 9.

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20. FIRST TIME ADOPTION OF IFRS

a) Transition to IFRS

As stated in Note 2, these consolidated financial statements are for the period covered by the Company's first annual consolidated financial statements prepared in accordance with IFRS. The accounting policies in Note 3 have been applied in preparing the consolidated statements of loss and comprehensive loss and cash flows for the year ended September 30, 2012 and 2011, and the consolidated statements of financial position as at September 30, 2012, 2011 and the opening IFRS statement of financial position on October 1, 2010, the "Transition Date."

In preparing the opening IFRS statement of financial position, the Company has found that no adjustments to amounts reported previously in consolidated financial statements that were prepared in accordance with GAAP were necessary and accordingly, no statement of reconciliation was prepared. The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS;

The Company elected to take the following IFRS 1 optional exemptions:

- i) to apply the requirements of IFRS 3, Business Combinations, prospectively from the Transition Date; and
- ii) to apply the requirements of IFRS 2, Share-based payments, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date.

The Company applied the following IFRS 1 mandatory exception:

Estimates: Hindsight is not used to create or revise estimates. 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 the previous GAAP applied, 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.

As there were no adjustments to the opening IFRS statement of financial position, no separate reconciling statements from Canadian GAAP to IFRS have been provided.

b) Presentation differences

Some line items are described differently under IFRS compared to Canadian GAAP. These line items are as follows (with Canadian GAAP descriptions in brackets):

- i) Exploration and evaluation assets ("Mineral properties")
- ii) Decommissioning and restoration provision ("Asset retirement obligation")
- iii) Reserve – share-based ("Contributed Surplus")

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21. SUBSEQUENT EVENTS

Subsequent to September 30, 2012, the Company:

- a) had its arbitration (Note 18) settled, whereby certain property payments and exploration commitments were reduced and extended, and all amounts owed to a company controlled by the former director, and the former director have been waived. In addition, 575,285 escrowed common shares of the Company were cancelled.
- b) issued 500,000 stock options to a director exercisable at \$0.15 per share which expire on November 8, 2017.
- c) 7,439,332 warrants exercisable at \$0.25 expired unexercised on October 8, 2012.
- d) 50,000,000 warrants exercisable at \$0.30 expired unexercised on October 11, 2012.
- e) issued 100,000 stock options exercisable at \$0.10 per share which expire on December 3, 2017.