

Financial Statements of

**Titus Energy Corp.
(Formerly Titus Capital Corp.)**

Years ended May 31, 2013 and 2012

(Expressed in Canadian Dollars)



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

VANCOUVER
1500 – 1140 W. Pender Street
Vancouver, BC V6E 4G1
TEL 604.687.4747 | FAX 604.689.2778

TRI-CITIES
700 – 2755 Lougheed Hwy.
Port Coquitlam, BC V3B 5Y9
TEL 604.941.8266 | FAX 604.941.0971

WHITE ROCK
301 – 1656 Martin Drive
White Rock, BC V4A 6E7
TEL 604.531.1154 | FAX 604.538.2613
WWW.DMCL.CA

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Titus Energy Corp. (Formerly Titus Capital Corp.):

We have audited the accompanying financial statements of Titus Energy Corp., which comprise the statements of financial position as at May 31, 2013 and 2012, and the statements of comprehensive loss, changes in equity and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

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

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

Opinion

In our opinion, the financial statements present fairly, in all material respects, the financial position of Titus Energy Corp. as at May 31, 2013 and 2012, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 1 in the financial statements which describe certain conditions that indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
September 19, 2013

PARTNERSHIP OF:

VANCOUVER Robert J. Burkart, Inc. James F. Carr-Hilton Ltd. Kenneth P. Chong Inc. Alvin F. Dale Ltd. David J. Goertz, Inc. Barry S. Hartley, Inc. Reginald J. LaBonte Ltd. Robert J. Matheson, Inc. Rakesh I. Patel Inc. Brad A. Robin Inc. F.M. Yada FCA Inc. **WHITE ROCK** Michael K. Braun Inc. Peter J. Donaldson, Inc. Harjit S. Sandhu, Inc. **TRI-CITIES** G.D. Lee Inc. Fraser G. Ross, Ltd. Brian A. Shaw Inc.

TITUS ENERGY CORP.
(Formerly Titus Capital Corp.)
Statements of financial position
(Expressed in Canadian dollars)

	Notes	May 31, 2013	May 31, 2012
ASSETS			
Current assets			
Cash and cash equivalents		\$ 1,144,673	\$ 1,565,298
Prepays and deposits	5,6	101,500	-
HST Receivable		19,790	-
Total Current Assets		1,265,963	1,565,298
Non-Current Assets			
Exploration and evaluation assets	5,6	54,518	-
TOTAL ASSETS		\$ 1,320,481	\$ 1,565,298
LIABILITIES			
Current liabilities			
Accrued liabilities		\$ 10,000	\$ 8,000
TOTAL LIABILITIES		10,000	8,000
EQUITY			
Share capital	4	1,687,386	1,687,386
Share-based payment reserve	4	35,329	35,329
Deficit		(412,234)	(165,417)
TOTAL EQUITY		1,310,481	1,557,298
TOTAL LIABILITIES AND EQUITY		\$ 1,320,481	\$ 1,565,298

Nature and continuance of operations (Note 1)

Approved by the Board of Directors and authorized for issue, September 19, 2013.

Approval on behalf of the Board of Directors:

“Anita Algie”

Director

“Reza Mohammed”

Director

TITUS ENERGY CORP.
(Formerly Titus Capital Corp.)
Statements of comprehensive loss
(Expressed in Canadian dollars)

	Notes	Year ended	
		May 31, 2013	May 31, 2012
Expenses			
Consulting fees	6	\$ 5,200	\$ 3,750
Filing fees		21,138	15,995
Management fees	6	60,000	-
Office and administration	6	67,662	45,836
Professional fees		93,960	10,058
Property investigation costs		16,267	-
		264,227	75,639
Other Item			
Interest income		17,410	16,692
Net and comprehensive loss		\$ (246,817)	\$ (58,947)
Loss per share – basic and diluted		\$ (0.02)	\$ (0.01)
Weighted average number of common shares outstanding – basic and diluted		10,205,000	9,925,000

TITUS ENERGY CORP.
(Formerly Titus Capital Corp.)
Statements of changes in equity
(Expressed in Canadian dollars)

	Share capital		Share-based payment reserve	Deficit	Total
	Number of shares	Amount			
Balance at June 1, 2011	12,725,000	\$ 1,687,386	\$ 35,329	\$ (106,470)	\$ 1,616,245
Net loss	-	-	-	(58,947)	(58,947)
Balance at May 31, 2012	12,725,000	\$ 1,687,386	\$ 35,329	\$ (165,417)	\$ 1,557,298
Balance at June 1, 2012	12,725,000	\$ 1,687,386	\$ 35,329	\$ (165,417)	\$ 1,557,298
Net loss	-	-	-	(246,817)	(246,817)
Balance at May 31, 2013	12,725,000	\$ 1,687,386	\$ 35,329	\$ (412,234)	\$ 1,310,481

TITUS ENERGY CORP.
Statements of cash flows
(Expressed in Canadian dollars)

	Year ended	
	May 31, 2013	May 31, 2012
Operating activities		
Net loss	\$ (246,817)	\$ (58,947)
Changes in non-cash working capital items:		
HST receivable	(19,790)	7,382
Prepays and deposits	(101,500)	-
Accrued liabilities	2,000	(4,331)
Net cash flows used in operating activities	(366,107)	(55,896)
Investing activities		
Exploration and evaluation assets	(54,518)	-
Net cash flows used in investing activities	(54,518)	-
Change in cash and cash equivalents	(420,625)	(55,896)
Cash and cash equivalents, beginning	1,565,298	1,621,194
Cash and cash equivalents, ending	\$ 1,144,673	\$ 1,565,298
Cash and cash equivalents consist of:		
Cash	\$ 144,673	\$ 1,565,298
Guaranteed investment certificate	1,000,000	-
	\$ 1,144,673	\$ 1,565,298

1. NATURE AND CONTINUANCE OF OPERATIONS

Titus Energy Corp. (the "Company") was incorporated as "Titus Capital Corp." under the British Columbia Business Corporations Act on February 17, 2010 and was classified as a Capital Pool Company as defined in Policy 2.4 of the TSX Venture Exchange (the "Exchange") until it completed its Qualifying Transaction (the "QT") on December 20, 2012.

The Company's head office, principal address and registered and records office is #313-515 West Pender Street, Vancouver, B.C., V6B 6H5.

Effective December 21, 2012, the Exchange accepted for filing the Company's QT and related transactions, all as principally described in its filing statement dated December 6, 2012 (the "Filing Statement"). As a result, the Company is no longer considered as a Capital Pool Company and has changed its name to "Titus Energy Corp.". Effective December 21, 2012, the common shares of "Titus Energy Corp." commenced trading on the Exchange. The Company's trading symbol is TIS. The Company is classified as a Tier 2 Junior Oil and Gas Exploration company and is involved in the oil and gas resource exploration and development sector.

The financial statements of the Company have been prepared on the assumption that the Company will continue as a going concern, meaning it will continue in operation for the foreseeable future and will be able to realize assets and discharge liabilities in the ordinary course of operations. Different bases of measurement may be appropriate if the Company is not expected to continue operations for the foreseeable future. The Company's continuation as a going concern is dependent upon its ability to attain profitable operations and generate funds there from and/or raise equity capital or borrowings sufficient to meet current and future obligations. As at May 31, 2013, the Company had completed its QT and management is of the opinion that sufficient working capital is available to meet the Company's liabilities and commitments as they become due for the upcoming fiscal year. However, during the year ended May 31, 2013, the Company incurred a net loss of \$246,817 and, as of this date, the Company has not generated revenue from operations and has an accumulated deficit of \$412,234. These conditions indicate the existence of a material uncertainty that may cast significant doubt about the entity's ability to continue as a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION

The financial statements were approved and authorized for issue on, September 19, 2013 by the directors of the Company.

Statement of compliance and conversion to International Financial Reporting Standards

The financial statements of the Company comply with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC").

Basis of preparation

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

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

Significant estimates and assumptions

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

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

Significant judgments

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

- the assessment of the Company's ability to continue as a going concern and whether there are events or conditions that may give rise to significant uncertainty;
- the determination of whether an acquisition constitutes a business combination or an acquisition of assets; and
- the classification/allocation of expenditures as exploration and evaluation assets or operating expenses.

Cash and cash equivalents

Cash and cash equivalents consist of cash and highly liquid Canadian dollar denominated guaranteed investment certificate that are readily convertible to contracted amounts of cash.

Share-based payments

Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The fair value of options is determined using the Black-Scholes Option Pricing Model. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

Exploration and evaluation expenditures

Exploration and evaluation expenditures include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Exploration and evaluation expenditures are capitalized. Costs incurred before the Company has obtained the legal rights to explore an area are recognized in comprehensive loss.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exists to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

Once the technical feasibility and commercial viability of the extraction of oil and gas resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to property, plant and equipment.

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective areas of interest.

Restoration and environmental obligations

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

Changes are recorded directly to oil and gas assets with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

Restoration and environmental obligations (continued)

Changes in the net present value, excluding changes in the Company's estimates of reclamation costs, are charged to profit and loss for the period.

The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

The costs of restoration projects included in the provision are recorded against the provision as incurred. The costs to prevent and control environmental impacts at specific properties are capitalized in accordance with the Company's accounting policy for exploration and evaluation assets.

Impairment of assets

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

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Loss per share

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

Financial instruments

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

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

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

Financial instruments (continued)

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

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

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

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen.

The Company has classified its cash and cash equivalents as fair value through profit and loss. The Company's receivables are classified as loans and receivables. The Company's trade payables are classified as other financial liabilities.

Income taxes

Current income tax:

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

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

Deferred income tax:

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

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PRESENTATION (continued)

Deferred income tax (continued):

only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

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

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

3. STANDARDS ISSUED BUT NOT YET APPLIED

Certain pronouncements were issued by the IASB or the IFRIC that are mandatory for accounting periods beginning after January 1, 2013 or later periods. The following new standards, amendments and interpretations that have not been early adopted in these financial statements, are not expected to have a material effect on the Company's future results and financial position.

New standard IFRS 9 "Financial Instruments"

This new standard is a partial replacement of International Accounting Standard (IAS) 39 "Financial Instruments: Recognition and Measurement". IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

New standard IFRS 10 "Consolidated Financial Statements"

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

New standard IFRS 10 "Consolidated Financial Statements"

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

New standard IFRS 11 "Joint Arrangements"

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

New standard IFRS 12 "Disclosure of Interests in Other Entities"

This new standard establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, and 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.

3. STANDARDS ISSUED BUT NOT YET APPLIED (continued)

New standard IFRS 13 "Fair value measurement"

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

New interpretation IFRIC 20 "Stripping Costs in the Production Phase of a Surface Mine"

This new IFRIC clarifies when production stripping should lead to the recognition of an asset and how that asset should be measured, both initially and in subsequent periods. IFRIC 20 is effective for annual periods beginning on or after January 1, 2013.

Amendments to IAS 32 "Financial Instruments: Presentation"

These amendments address inconsistencies when applying the offsetting requirements, and are effective for annual periods beginning on or after January 1, 2014.

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

4. SHARE CAPITAL

Authorized share capital

Unlimited number of voting common shares without nominal or par value.

Issued common shares

During the years ended May 31, 2013 and 2012 the Company did not issue any common shares.

Shares held in escrow

As at May 31, 2013, pursuant to the escrow agreement dated September 21, 2010, 2,520,000 (2012 – 2,800,000) common shares issued are held in escrow. Under the escrow agreement, 10% of the escrowed common shares will be released from escrow on the date of acceptance by the Exchange of the Company's QT (the "Initial Release") and an additional 15% will be released every six months following the Initial Release over a period of thirty six months. As at May 31, 2013, 280,000 (2012 – Nil) common shares had been released from escrow.

Stock options

The Company has adopted an incentive stock option plan, which provides that the Board of Directors of the Company may from time to time, in its discretion, and in accordance with the Exchange requirements, grant to directors, officers, employees and technical consultants to the Company, non-transferable stock options to purchase common shares, provided that the number of common shares reserved for issuance will not exceed 10% of the Company's issued and outstanding common shares. Such options will be exercisable for a period of up to 10 years from the date of grant. In connection with the foregoing, the number of common shares reserved for issuance to any one optionee will not exceed five percent (5%) of the issued and outstanding common shares and the number of common shares reserved for issuance to all technical consultants will not exceed two percent (2%) of the issued and outstanding common shares. Options may be exercised no later than 90 days following cessation of the optionee's position with the Company or 30 days following cessation of an optionee conducting investor relations activities' position.

During the years ended May 31, 2013 and 2012, the Company did not grant any options.

As at May 31, 2013, there are 200,000 (2012 – 200,000) options issued and outstanding with the weighted average life and weighted average exercise price of 2.00 years (2012 – 3.00 years) and \$0.15 (2012 – \$0.15), respectively. As at May 31, 2013 and 2012, all of these options were exercisable.

4. SHARE CAPITAL (continued)

Warrants

As at May 31, 2013, there are Nil (2012 – 695,200) warrants issued and outstanding with a weighted average life and weighted average exercise price of Nil years (2012 – 0.79 years) and \$Nil (2012 – \$0.16), respectively. During the year ended May 31, 2013, the warrants issued and outstanding as at May 31, 2012 expired unexercised.

Share-based payment reserve

The share-based payment reserve records items recognized as stock-based compensation expense and other share-based payments until such time that the stock options or warrants are exercised, at which time the corresponding amount will be transferred to share capital.

5. EXPLORATION AND EVALUATION ASSETS

Prevail Property

On October 15, 2012, the Company entered in an agreement with an arm's length vendor, by which the Company can earn a 30% interest in the Prevail Property in the Province of Saskatchewan. To earn a 30% interest, the Company must complete re-activation "work-over" of three currently shut-in wells, on or before June 1, 2013 and drill, complete and equip one infill well on or before June 1, 2013. The work program commitment is estimated at \$750,000. Subsequent to the year ended May 31, 2013, the Company and the arm's length vendor agreed to extend the work program from June 1, 2013 to June 1, 2014.

During year ended May 31, 2013, the Company spent \$54,518 (2012 - \$Nil) in exploration and evaluation costs. As at May 31, 2013, the Company recorded in prepaids and deposits \$100,000 (2012 - \$Nil) as a deposit towards the work program to the arm's length vendor. The deposit will be applied to the final bill.

	Prevail Property, Saskatchewan, Canada
Balance, May 31, 2012	\$ -
Geophysical survey	30,018
Consulting (Note 6)	20,000
Geological consulting (Note 6)	4,500
Balance, May 31, 2013	\$ 54,518

6. RELATED PARTY TRANSACTIONS

The Company incurred the following transactions with the directors and officers of the Company and companies controlled by directors of the Company:

	May 31, 2013	May 31, 2012
Management fees paid to the President of the Company	\$ 60,000	\$ -
Consulting fees paid to a director of the Company	5,200	-
Consulting fees paid to the President of the Company (Note 5)	20,000	-
Geological consulting fees paid a director of the Company (Note 5)	4,500	-
Office and administration services paid to a company controlled by a common director	43,000	30,000
	\$ 132,700	\$ 30,000

6. RELATED PARTY TRANSACTIONS (continued)

Key management personnel compensation

	May 31, 2013	May 31, 2012
Management fees paid to the President of the Company	\$ 60,000	\$ -
Consulting fees paid a director of the Company	5,200	-
Consulting fees paid to the President of the Company (Note 5)	20,000	-
Geological consulting fees paid to a director of the Company (Note 5)	4,500	-
	\$ 89,700	\$ -

At May 31, 2013, the Company recorded in prepaids and deposits \$1,500 (2012 - \$Nil) for an advance payment towards geological consulting fees to a director of the Company.

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair value

As at May 31, 2013 and 2012, the Company's financial instruments consisted of cash and cash equivalents and HST receivable. The fair values of cash and cash equivalents and HST receivable approximate their carrying values because of their current nature.

Financial instruments measured at fair value are classified into one of the 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;

Level 3 – Inputs that are not based on observable market data.

Cash and cash equivalents are classified as a level 1 input. The Company does not have any derivative financial assets and liabilities.

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 process.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The majority of cash is deposited in bank accounts held with one major bank in Canada so there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. The Company's secondary exposure to risk on its HST receivable is minimal since it is recoverable from the Canadian government.

Foreign currency risk

Foreign currency risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because they are denominated in currencies that differ from the Company's functional currency. The Company only operates in Canada and is therefore not exposed to foreign exchange risk arising from transactions denominated in a foreign currency.

Interest rate risk

Interest rate risk is the risk that the fair value of future cash flow of a financial instrument will fluctuate because of changes in market interest rate. The Company's exposure to interest rate risk relates to its ability to earn interest income on cash and cash equivalents balances at variable rates. The risk is minimal.

7. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (continued)

Financial instrument risk exposure (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has a planning and budgeting process in place to help determine the funds required to support the Company's normal operating requirements on an ongoing basis. The Company attempts to ensure there is sufficient access to funds to meet on-going business requirements, taking into account its current cash position and potential funding sources.

8. MANAGEMENT OF CAPITAL

The Company manages the capital structure and makes adjustments to it depending on changes in economic conditions, business opportunity and risk characteristics of the underlying assets. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management.

Management reviews its capital management approach on an on-going basis and believes that this approach, given the small size of the Company, is reasonable. The Company is not subject to externally imposed capital requirements.

The Company's policy is to maintain a strong capital base so as to maintain investor and creditor confidence, safeguard the Company's ability to support the exploration and development of its exploration and evaluation assets and to sustain future development of the business. The capital structure of the Company consists of equity and debt obligations, net of cash and cash equivalents.

There were no changes in the Company's approach to capital management during the year.

The Company is subject to certain requirements in relation to its use of funds raised through the issuance of flow-through shares. These funds have to be incurred for eligible exploration expenditures in accordance with Canadian federal and certain provincial income tax acts. During the year, the Company complied with the requirements.

9. INCOME TAX

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

	2013	2012
Loss for the year	\$ (246,817)	\$ (58,947)
Statutory tax rate	25.00%	25.88%
Expected income tax recovery	(61,704)	(15,253)
Permanent differences	483	-
Change in valuation allowance	46,013	14,737
Impact of tax rate change and other	15,209	516
Deferred income tax recovery	\$ -	\$ -

9. INCOME TAX (continued)

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

	2013	2012
Loss carry-forwards	\$ 455,460	\$ 235,764
Share issuance costs	71,293	106,939
	<u>\$ 526,753</u>	<u>\$ 342,703</u>

The tax pools relating to these deductible temporary differences expire as follows:

	Exploration and evaluation assets	Loss carry- forwards	Share issuance costs
2014	\$ -	\$ -	\$ 35,646
2015	-	-	35,647
2030	-	36,167	-
2031	-	43,806	-
2032	-	94,957	-
2033	-	280,530	-
No expiry	54,518	-	-
	<u>\$ 54,518</u>	<u>\$ 455,460</u>	<u>\$ 71,293</u>

Management has determined that the realization of the potential income tax benefits related to the non-capital losses and other tax pools is uncertain at this time, and cannot be viewed as more likely than not. Accordingly, the Company has recorded a valuation allowance for the potential deferred income tax asset. As at May 31, 2013, the Company has non-capital losses of approximately \$455,460 that may be applied against deferred income for Canadian income tax purposes which commence expiring in 2030.

10. Subsequent event

Subsequent to the year ended May 31, 2013, the Company entered into an extension agreement with the arm's length vendor to extend the work program from June 1, 2013 to June 1, 2014 (Note 5).