KR INVESTMENT LTD.
(A CAPITAL POOL COMPANY)

FINANCIAL STATEMENTS

FOR THE YEARS ENDED

AUGUST 31, 2012 AND 2011

MANNING ELLIOTT
CHARTERED ACCOUNTANTS

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INDEPENDENT AUDITORS' REPORT

To the Shareholders of
KR Investment Ltd.

We have audited the accompanying financial statements of KR Investment Ltd. which comprise the statements of financial position as at August 31, 2012, August 31, 2011 and September 1, 2010 and the statements of comprehensive loss, changes in equity and cash flows for the years ended August 31, 2012 and August 31, 2011, and the related notes comprising 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 as issued by the International Accounting Standards Board, 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.

Auditors' 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 our 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, we consider 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 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 KR Investment Ltd. as at August 31, 2012, August 31, 2011 and September 1, 2010, and its financial performance and cash flows for the years ended August 31, 2012 and August 31, 2011 in accordance with International Financial Reporting Standards as issued by the International Accounting Standards Board.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 to these financial statements which describes the existence of a material uncertainty that may cast significant doubt about the ability of KR Investment Ltd. to continue as a going concern.

Manning Elliott LLP

CHARTERED ACCOUNTANTS

Vancouver, British Columbia

November 29, 2012

KR INVESTMENT LTD.

STATEMENTS OF FINANCIAL POSITION

AS AT AUGUST 31, 2012, AUGUST 31, 2011 AND SEPTEMBER 1, 2010

(Expressed in Canadian Dollars)

	August 31, 2012 $	August 31, 2011 $ (Note 10)	September 1, 2010 $ (Note 10)
ASSETS			
Current Assets			
Cash and cash equivalents	185,625	254,105	209,864
Amounts recoverable	1,950	32	-
Prepaid expense	293	-	-
	187,868	254,137	209,864
Deferred financing costs	-	-	336
	187,868	254,137	210,200
LIABILITIES			
Current Liabilities			
Accounts payable and accrued liabilities	1,095	1,299	5,799
Due to related parties (Note 6)	11,100	11,100	11,100
	12,195	12,399	16,899
SHAREHOLDERS' EQUITY			
Share capital (Note 5)	317,207	317,207	197,760
Contributed surplus	53,034	53,034	-
Deficit	(194,568)	(128,503)	(4,459)
	175,673	241,738	193,301
	187,868	254,137	210,200

Going Concern (Note 1)

Approved on behalf of the Board on November 29, 2012:

"Ki Bong Cho"	*"S. John Kim"*
Ki Bong Cho, Director	S. John Kim, Director

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

KR INVESTMENT LTD.

STATEMENTS OF COMPREHENSIVE LOSS

FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011

(Expressed in Canadian Dollars)

	2012 $	2011 $ (Note 10)
REVENUE	-	-
EXPENSES		
Accounting and legal	21,480	59,149
Bank charges	145	491
Rent (Note 6)	20,000	8,960
Professional and training	945	-
Share-based payments (Note 5 (d))	-	36,601
Telephone	510	646
Transfer agent and filing fees	14,998	16,935
Travel	7,987	1,262
	66,065	124,044
LOSS AND COMPREHENSIVE LOSS FOR THE YEAR	(66,065)	(124,044)
LOSS PER SHARE		
Loss Per Share – Basic and Diluted	(0.01)	(0.03)
Weighted Average Shares Outstanding	6,000,000	4,876,712

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

KR INVESTMENT LTD.

STATEMENTS OF CHANGES IN EQUITY

FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011

(Expressed in Canadian Dollars)

	Number of Common Shares	Amount $	Contributed Surplus $	Deficit $	Total $
As at September 1, 2010	4,000,000	197,760	-	(4,459)	193,301
Issuance of common shares	2,000 000	119,447	16,433	-	135,880
Share-based payments	-	-	36,601	-	36,601
Net loss and comprehensive loss	-	-	-	(124,044)	(124,044)
Balance, August 31, 2011	6,000,000	317,207	53,034	(128,503)	241,738
Net loss and comprehensive loss	-	-	-	(66,065)	(66,065)
Balance August 31, 2012	6,000,000	317,207	53,034	(194,568)	175,673

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

KR INVESTMENT LTD.

STATEMENTS OF CASH FLOWS

FOR THE YEARS ENDED AUGUST 31, 2012 AND 2011

(Expressed in Canadian Dollars)

	2012 $	2011 $ (Note 10)
OPERATING ACTIVITIES		
Net income (loss) for the year	(66,065)	(124,044)
Items not involving cash:		
Share-based payments	-	36,601
	(66,065)	(87,443)
Changes in operating assets and liabilities:		
Prepaid expense	(293)	-
Amounts recoverable	(1,918)	(32)
Accounts payable and accrued liabilities	(204)	(4,500)
	(68,480)	(91,975)
FINANCING ACTIVITIES		
Common shares issued for cash	-	200,000
Share issuance and deferred financing costs	-	(63,784)
	-	136,216
INCREASE (DECREASE) IN CASH AND CASH EQUIVALENTS	(68,480)	44,241
CASH AND CASH EQUIVALENTS, BEGINNING OF YEAR	254,105	209,864
CASH AND CASH EQUIVALENTS, END OF YEAR	185,625	254,105
SUPPLEMENTAL CASH FLOW INFORMATION		
Cash paid for:		
Interest	-	-
Income taxes	-	-

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

1. NATURE OF OPERATIONS AND GOING CONCERN

KR Investment Ltd. (the "Company") was incorporated on August 3, 2010 under the *Business Corporations Act* (British Columbia). The Company is a Capital Pool Company ("CPC") as defined in TSX Venture Exchange Policy 2.4, and accordingly, its planned principal activity is to use its capital to investigate and find a business or group of assets to acquire (the "Qualifying Transaction"). The Company completed its initial public offering ("IPO") on March 24, 2011 and its common shares commenced trading on the TSX Venture Exchange on March 29, 2011.

The head office, principal address and records office of the Company are located at Suite 1601 – 1166 Alberni Street, Vancouver, British Columbia, V6E 3Z3. The Company's registered address is at the same address.

The Company does not currently have operations or assets capable of generating ongoing revenues or cash flows and there is no certainty that it will complete a Qualifying Transaction within the twenty-four month time period specified by TSX Venture Exchange Policy 2.4.

Although these financial statements have been prepared and presented on a going concern basis, there is significant risk that the Company will not become a going concern, in which case this basis of presentation will not be appropriate. As at August 31, 2012, the Company has no source of recurring revenue, generates negative cash flows from operating activities, and has an accumulated deficit of $194,568. These factors raise substantial doubt about the Company's ability to continue as a going concern. The continued operations of the Company are dependent on its ability to identify mineral projects and negotiate suitable arrangements, maintain support from its significant shareholders and obtain additional financing. Management is of the opinion that sufficient working capital will be obtained from financing from related parties to meet the Company's liabilities and commitments as they become due, although there is a risk that additional financing will not be available on a timely basis or on terms acceptable to the Company. These financial statements do not reflect any adjustments that may be necessary if the Company is unable to continue as a going concern.

2. BASIS OF PRESENTATION

(a) Statement of compliance

These financial statements, including comparative figures, have been prepared in accordance with International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board ("IASB"). These financial statements are the Company's first publicly issued annual IFRS financial statements. An explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company is provided in Note 10.

(b) Basis of measurement

The financial statements have been prepared on a going concern basis, under the historical cost convention except for financial instruments described in Note 4(f), which are measured at fair value. The financial statements are presented in Canadian dollars, which is the Company's functional currency. The accounting policies set out below have been applied consistently to all years presented in these financial statements as if the policies have always been in effect, subject to certain IFRS transition elections described in Note 10.

(c) Functional and presentation currency

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

(Expressed in Canadian Dollars)

2. BASIS OF PRESENTATION (continued)

(d) Use of estimates and judgments

The preparation of the financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which affect the application of accounting policies and the reported amounts of assets, liabilities and expenses. Actual results may differ from these estimates. The financial statements do not include all of the information required for full annual financial statements.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected. Information about critical judgments in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements include share-based payments and recovery of deferred tax assets.

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS

Accounting Standards Issued and Effective

IFRS 7 – Financial Instruments: Disclosures – In October, 2010 the IASB issued amendments to IFRS 7 that improve the disclosure requirements in relation to transferred financial assets.

The amendments are effective to annual periods beginning on or after July 1, 2011, with early adoption permitted. The Company has adopted this amendment and it is expected to have no significant impact on the financial statements.

Standards Issued But Not Yet Adopted

For the purposes of preparing and presenting the Company's annual financial statements, the Company has adopted all standards and interpretations issued other than those discussed in this note. These standards have not been adopted because they are not effective until subsequent to January 1, 2012. Standards and interpretations issued, but not adopted include:

	Effective
Amendment to IAS 12, Income Taxes	January 1, 2012
IFRS 9 – Financial Instruments	January 1, 2015
IFRS 10 – Financial statements	January 1, 2013
IFRS 11 – Joint Arrangements	January 1, 2013
IFRS 12 – Disclosure of Interests in Other Entities	January 1, 2013
IFRS 13 – Fair Value Measurement	January 1, 2013
IAS 1 – Presentation of Financial Statements	July 1, 2012
IAS 27 – Separate Financial Statements	January 1, 2013
IAS 28 – Investments in Associates and Joint Ventures	January 1, 2013
Amendment to IAS 32, Offsetting Financial Assets and Financial Liabilities	January 1, 2014

3. APPLICATION OF NEW AND REVISED INTERNATIONAL FINANCIAL REPORTING STANDARDS (continued)

The Company believes that, with the exception of IFRS 9, Financial Instruments, the adoption of these revised standards will have no material impact on the financial statements of the Company. For standards that become effective after January 1, 2013, the Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements. In December 2011, the IASB extended the mandatory effective date for IFRS 9 to on or after January 1, 2015 with early adoption permitted. As a result, there were amendments to IAS 32 Financial Instruments – Presentation to clarify the offsetting between financial assets and liabilities, which are mandatory effective on or after January 1, 2014.

IFRS 9, Financial Instruments, proposes to replace IAS 39 Financial Instruments; Recognition and Measurement. The replacement standard has three main phases, the first of which provides new guidance for the classification and measurement of financial assets and liabilities. The second part, which is currently an exposure draft, provides guidance for amortized cost and methodology for financial assets. The third part, which is also currently an exposure draft, proposes a revised general hedge accounting model. The Company will evaluate the impact of the change to its financial statements based upon the characteristics of the financial instruments anticipated to be outstanding at the time of adoption. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its financial statements or whether to early adopt any of the new requirements.

4. SIGNIFICANT ACCOUNTING POLICIES

(a) Cash and Cash Equivalents

Cash and cash equivalents include cash in bank accounts and when applicable, cashable securities that on acquisition have a term to maturity of three months or less, or may be redeemed during this period. Cash and cash equivalents are highly liquid marketable securities and deposits, which are designated as fair value through profit or loss and are recorded at their fair values with changes recognized in net loss. Fair values are determined by reference to quoted market prices at the statement of financial position date.

(b) Impairment of Long-Lived Assets

At each reporting date, the Company reviews the carrying amounts of its tangible assets to determine whether there are any indications of impairment. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any.

Whether the asset does not generate cash flows that are independent from other assets, the Company estimates the recoverable amount of the cash generating unit (“CGU”) to which the assets belongs. The recoverable amount is determined as the higher of fair value less direct costs to sell and the asset’s value in use. In assessing value in use, the estimated future cash flows are discounted to their present value. Estimated future cash flows are calculated using estimated recoverable reserves, estimated future commodity prices and the expected future operating and capital costs. The pre-tax discount rate applied to estimated future cash flows reflects current market assessments of the time value of money and the risks specific to the asset for which the future cash flow estimates have not been adjusted.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(b) Impairment of Long-Lived Assets (continued)

If the carrying amount of an assets or CGU exceeds its recoverable amount, the carrying amount of the asset or CGU is reduced to its recoverable amount through an impairment charge to the statement of income.

Assets that have been impaired are tested for possible reversal of the impairment whenever events or changes in circumstance indicate that the impairment may have reversed. When an impairment subsequently reverses, the carrying amount of the asset or CGU is increased to the revised estimate of its recoverable amount, but only so that the increased carrying amount does not exceed the carrying amount that would have been determined (net of depreciation, depletion and amortization) had no impairment loss been recognized for the asset or CGU in prior periods. A reversal of impairment is recognized as a gain in the statement of operations and comprehensive loss.

(c) Share issuance costs

Professional, consulting and regulatory fees as well as other costs directly attributable to financing transactions are reported as deferred financing costs until the transactions are completed, if the completion of the transaction is considered to be more likely than not. Share issue costs are charged to share capital when the related shares are issued. Costs relating to financing transactions that are not completed or for which successful completion is considered unlikely, are charged to operations.

(d) Basic and Diluted Earnings (Loss) Per Share

Basic and diluted earnings (loss) per share is computed by dividing the net earnings (loss) for the year available to common shareholders (numerator) by the weighted average number of common shares outstanding during the year (denominator). The Company applies the treasury stock method in calculating diluted earnings (loss) per share. Diluted earnings (loss) per share excludes all dilutive potential common shares if their effect is anti-dilutive. Loss per share information does not include the effect of any potential common shares, as their effect would be anti-dilutive.

(e) Deferred Income Taxes

Deferred income tax is provided based on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority. Deferred tax assets are recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial Instruments

Non-derivative financial assets

Non-derivative financial assets are initially recognized at fair value and are classified into one of four categories: financial assets at fair value through profit or loss, held-to-maturity financial assets, loans and receivables or available-for-sale financial assets.

i) Financial assets at fair value through profit or loss

Financial asset are classified as fair value through profit or loss if they are held for trading or are designated as such upon initial recognition. Financial assets at fair value through profit or loss are measured at fair value, and changes are recognized in operations. Upon initial recognition transaction costs are recognized in operations as incurred.

ii) Held-to-maturity financial assets

Financial assets are classified as held-to-maturity if the Company has the positive intent and ability to hold them to maturity. These financial assets are recognized initially at fair value together with directly attributable costs, and are subsequently measured at amortized cost using the effective interest method less any impairment losses. Any sale or reclassification of a more than significant amount of these assets not close to their maturity would result in the reclassification of all held-to-maturity financial assets as available-for-sale, and would prevent the Company classifying investment securities as held-to-maturity for the current and following two financial years.

iii) Loans and receivables

These assets are financial assets with fixed or determinable payments that are not quoted in an active market. These assets are recognized initially at fair value plus any directly attributable transaction costs, and are subsequently measured at amortized cost using the effective interest method less any impairment losses.

iv) Available-for-sale financial assets

Available-for-sale financial assets are financial assets that are designated as available-for-sale and that are not classified in any of the previous categories. Subsequent to initial recognition, they are measured at fair value and any changes, other than impairment losses and foreign currency differences on available-for-sale equity instruments, are recognized in other comprehensive income and presented within equity. When an available-for-sale financial asset is derecognized, the cumulative gain or loss in other comprehensive income is reclassified through operations.

4. SIGNIFICANT ACCOUNTING POLICIES (continued)

(f) Financial Instruments (continued)

Non-derivative financial liabilities

Non-derivative financial liabilities are initially recognized at fair value and are classified into one of two categories: financial liabilities at fair value through profit or loss or other financial liabilities.

v) Financial liabilities at fair value through profit or loss

These financial liabilities are acquired or incurred principally for the purpose of selling or repurchasing in the near term. They are measured at fair value, and changes therein are recognized in operations.

vi) Other financial liabilities

These financial liabilities are recognized initially at fair value plus any directly attributable transaction costs, and are subsequently measured at amortized cost using effective interest method.

(g) Share-based payments

The Company grants share-based awards to employees, directors and non-employees as an element of compensation. The fair value of the awards granted to employees and directors is recognized over the vesting period as share-based payments expense and contributed surplus. The fair value of share-based payments is determined using the Black-Scholes option pricing model using estimates at the date of the grant. At each reporting date prior to vesting, the cumulative expense representing the extent to which the vesting period has expired and management's best estimate of the awards that are ultimately expected to vest is computed. The movement in cumulative expense is recognized in the statement of operations and comprehensive loss with a corresponding entry within equity, against contributed surplus. No expense is recognized for awards that do not ultimately vest. When stock options are exercised, the proceeds received, together with any related amount in contributed surplus, are credited to share capital.

Share-based payment arrangements with non-employees in which the Company receives goods or services are measured based on the estimated fair value of the goods or services received, unless the fair value cannot be estimated reliably. If the Company cannot reliably estimate the fair value of the goods or services received, the Company will measure their value by reference to the fair value of the equity instruments granted.

(h) Provisions

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resourced embodying economic benefits will be required to settle the obligation, and a reliable estimate of the amount of the obligation can be made.

The amount recognized as a provision is the best estimate of the consideration required to settle the present obligation at the statement of financial position date, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

(Expressed in Canadian Dollars)

5. SHARE CAPITAL

(a) Authorized: Unlimited number of common shares without par value.

(b) Issued and Outstanding

On March 24, 2011, pursuant to the initial public offering, the Company issued 2,000,000 common shares at a price of $0.10 per share for gross proceeds of $200,000.

On September 2, 2010, the Company entered into an agreement with its agent to commit to offer 2,000,000 common shares of the Company at a price of $0.10 per share for gross proceeds of $200,000 (the "IPO"). In connection with the IPO, the Company filed a preliminary prospectus on SEDAR on October 15, 2010, and agreed to pay to its agent a cash commission equal to 10% of the gross proceeds of the IPO (paid) and to issue agent options to acquire the number of common shares of the Company equal to 10% of the common shares issued under the IPO (issued). The agent options are exercisable at a price of $0.10 per share for a period of two years from the date the common shares are listed for trading on the TSX Venture Exchange.

The fair value of the agent options, which was included in share issuance costs, was $16,433 which was determined using the Black-Scholes option pricing model with the following assumptions: a share price at grant date of $0.10; an annualized volatility of 189%; and expected life of 2 years; a dividend yield rate of 0%; and a risk-free interest rate of 1.8%.

(c) Escrowed Shares

At August 31, 2012, 4,000,000 common shares issued and outstanding were placed in escrow to be released in accordance with TSX Venture Exchange Policy 2.4 over a period of up to 36 months from the date of the Final Exchange Bulletin following the completion of a Qualifying Transaction. All of these shares continue to remain in escrow.

(d) Stock Options

The Company has established an incentive share option plan for granting options to directors, employees and consultants in accordance with Exchange policies. On March 24, 2011, the Company granted 400,000 stock options to directors and officers of the Company at a price of $0.10 per share, exercisable from March 29, 2011 to March 29, 2021. The options vest fully on the date of grant. The fair value of the directors' and officers' stock options, which was expensed during the period, was $36,601 which was determined using the Black-Scholes option pricing model with the following assumptions: a share price at grant date of $0.10; an annualized volatility of 104%; an expected life of 10 years; a dividend yield rate of 0%; and a risk-free interest rate of 3.5%.

(i) Directors' and Officers' Options

As at August 31, 2012, the following incentive stock options are outstanding:

	Number of Options	Weighted Average Exercise Price	Expiry Date
Directors' and Officers' options	400,000	$0.10	March 29, 2021

(Expressed in Canadian Dollars)

5. SHARE CAPITAL (continued)

(d) Stock Options (continued)

(ii) Agent's Options

As at August 31, 2012, the following agent's options are outstanding:

	Number of Options	Weighted Average Exercise Price	Expiry Date
Agent's options	200,000	$0.10	March 29, 2013

6. RELATED PARTY TRANSACTIONS AND BALANCES

The Company has identified its directors and certain senior officers as its key management personnel. The remuneration of the Company's key management personnel was $Nil (2011 - $36,601) in share-based payments.

On May 1, 2011, the Company entered into a lease agreement with a company controlled by a director of the Company for the year commencing May 1, 2011 and expired on March 31, 2012 for the amount of $2,000 per month. The said the lease was renewed for an additional term of three months from April 1, 2012 to June 30, 2012.

During the year ended August 31, 2012, the Company paid a total of $20,000 (2011 - $8,960) for office premises provided by a company controlled by a director of the Company.

As at August 31, 2012, a director of the Company had advanced $11,100 (2011 - $11,100) to the Company. This advance is unsecured, non-interest bearing and due on demand.

These transactions were in the normal course of operations and have been measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

7. INCOME TAXES

The following table reconciles the amount of income tax recoverable upon application of statutory Canadian federal and provincial income tax rates to the amount reported in these financial statements:

	2012 $	2011 $
Net loss before income taxes	(66,065)	(124,044)
Canadian statutory income tax rate	25.5%	27.2%
Expected income tax recovery at statutory rate	(16,847)	(33,740)
Tax effect of:		
Permanent differences	-	(7,824)
Change in enacted tax rates	219	3,337
Change in unrecognized deferred income tax assets	16,628	38,227
Deferred income tax recovery	-	-

(Expressed in Canadian Dollars)

7. INCOME TAXES (continued)

The significant components of the Company's deferred income tax assets are as follows:

	2012 $	2011 $
Deferred income tax assets:		
Non-capital losses carried forward	37,670	14,867
Share issuance costs	18,412	24,587
Total deferred income tax assets	56,082	39,454
Unrecognized deferred income tax assets	(56,082)	(39,454)
Net deferred income tax assets	-	-

The Company has $150,679 of non-capital losses that may be carried forward and applied against taxable income of future years. If unused, the non-capital losses will begin to expire in 2030.

8. MANAGEMENT OF CAPITAL

The Company's objectives when managing capital are to complete a qualifying transaction to raise equity or other financing and to safeguard the Company's ability to continue as a going concern (see Note 1). The Company does not have any externally imposed capital requirements to which it is subject.

As at August 31, 2012, the Company considers capital to consist of all components of shareholders' equity. 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 common shares or long term debt.

The Company expects its current and future capital resources to be sufficient to pursue a Qualifying Transaction and to fund current operations.

9. FINANCIAL INSTRUMENTS AND RISKS

(a) Financial instruments and fair value measurements

The Company's financial instruments include cash and cash equivalents, accounts payable and amounts due to related parties. The Company classifies its cash and cash equivalents as fair value through profit or loss and its accounts payable and amount due to related parties as other financial liabilities. The fair values of these financial instruments approximate their carrying values because of their current or on demand nature. Fair values of financial instruments are classified in a fair value hierarchy based on the inputs and used to determine fair values. The levels of the fair value hierarchy are as follows:

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 Company's financial instruments at August 31, 2012 and 2011 classified as "Level 1 – Quoted prices in active markets" are cash and cash equivalents.

9. FINANCIAL INSTRUMENTS AND RISKS (continued)

(b) Financial risks

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation. The Company is exposed to credit risk through its cash and cash equivalents which are held with large Canadian financial institutions. The Company believes this credit risk is insignificant, however, as at August 31, 2012, cash and cash equivalents substantially exceed the amounts covered by federal deposit insurance.

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company is exposed to short-term interest rates through the interest earned on cash balances; however, management does not believe this exposure is significant.

Liquidity risk is the risk that the Company will encounter difficulty in meeting obligations associated with financial liabilities. The Company's accrued liabilities and accounts payable are all current. The Company ensures that it has sufficient capital to meet short-term financial obligations after taking into account its administrative obligations.

Foreign exchange risk is the risk related to the fluctuation of foreign exchange rates. The Company is not exposed to significant foreign exchange risk.

The Company's ability to raise capital to fund operating activities is subject to risks associated with fluctuations in the market price of its commodities. The Company closely monitors commodity prices to determine the appropriate course of actions to be taken.

The Company does not use derivative instruments or hedges to manage risks because the Company's exposure to credit risk, interest rate risk and currency risk is small.

10. CONVERSION TO IFRS

For all periods up to and including the year ended August 31, 2011, the Company prepared its financial statements in accordance with Canadian GAAP. The Company will be preparing its first financial statements in accordance with IFRS for the year ending August 31, 2012. The Company has prepared financial statements which comply with IFRS applicable for periods beginning on or after September 1, 2011 as described in the accounting policies. In preparing these financial statements, the Company's opening statement of financial position was prepared as at September 1, 2010, the Company's date of transition to IFRS.

First-time adoption of IFRS

IFRS 1 *First-time Adoption of International Financial Reporting Standards* sets forth guidance for the initial adoption of IFRS. Under IFRS 1 the standards are applied retrospectively at the transitional statement of financial position date with all adjustment to assets and liabilities taken to retained earnings unless certain exemptions are applied.

The Company did not use the exemptions listed in IFRS 1.

This note explains the principal adjustments made by the Company in restating its Canadian GAAP statement of financial position as at September 1, 2010 and August 31, 2011 and the statement of operations for the year ended August 31, 2011.

IFRS 1 does not permit changes to estimates that have been made previously. Accordingly, estimates used in the preparation of the Company's opening IFRS statement of financial position as at the Transition Date are consistent with those that were made under Canadian GAAP.

(Expressed in Canadian Dollars)

10. CONVERSION TO IFRS (continued)

Changes to accounting policies

IFRS employs a conceptual framework that is similar to Canadian GAAP. However, significant differences exist in certain matters of recognition, measurement and disclosure. While adoption of IFRS has not changed the Company's actual cash flows, it has resulted in changes to the Company's reported financial position and results of operations. In order to allow the users of the financial statements to better understand these changes, the Company's Canadian GAAP statement of operations, statement of comprehensive loss, statement of financial position and statement of cash flows for the year ended August 31, 2011 have been reconciled to IFRS, with the resulting differences explained.

The following summarizes the significant changes to the Company's accounting policies on adoption of IFRS.

Share issuance costs

IFRS – Initial public offering costs directly attributable for the offer of shares to the public are recorded as deferred financing costs until the financing transactions are completed and charged to share capital once completed. If those costs are for the listing procedures to comply with the requirements established by the relevant securities regulator or exchange, they are expensed as incurred.

Canadian GAAP – All initial public offering related to the offer of shares to the public and the listing procedures are recorded as deferred financing costs until the financing transactions are completed and charged to share capital once completed. The Company adjusted the deferred financing costs and share issuance costs due to the costs related to the listing procedures with the securities regulator and exchanges.

Reconciliation to previously reported financial statements:

In preparing the Company's IFRS transition date statement of financial position management expensed costs related to the listing procedures to comply with the requirements established by the relevant securities regulator or exchange, which were previously included in share issuance costs.

	September 1, 2010 Canadian GAAP $	Effect of IFRS Transition $	September 1, 2010 IFRS $
ASSETS			
CURRENT ASSETS			
Cash and cash equivalents	209,864	-	209,864
DEFERRED FINANCING COSTS	1,680	(1,344)	336
TOTAL ASSETS	211,544	(1,344)	210,200
TOTAL LIABILITIES	16,899	-	16,899
SHAREHOLDERS' EQUITY			
Share capital	197,760	-	197,760
Deficit	(3,115)	(1,344)	(4,459)
TOTAL SHAREHOLDERS' EQUITY	194,645	(1,344)	193,301
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	211,544	(1,344)	210,200

(Expressed in Canadian Dollars)

10. CONVERSION TO IFRS (continued)

The August 31, 2011 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

	August 31, 2011 Canadian GAAP $	Effect of IFRS Transition $	August 31, 2011 IFRS $
Total Assets	254,137	-	254,137
Total Liabilities	12,399	-	12,399
Shareholders' equity			
Share capital	260,074	57,133	317,207
Contributed surplus	53,034	-	53,034
Deficit	(71,370)	(57,133)	(128,503)
Total Shareholders' Equity	241,738	-	241,738
Total Liabilities and Shareholders' Equity	254,137	-	254,137

IFRS 1 also requires reconciliation disclosures that explain how the transition from Canadian GAAP to IFRS has affected the Company's previously reported comprehensive income (loss) for the year ended August 31, 2011.

Statement of Operations and Comprehensive Loss	Year ended, August 31, 2011 Canadian GAAP $	Effect of IFRS Transition $	Year ended, August 31, 2011 IFRS $
Revenue	-	-	-
Expenses			
Accounting and legal	14,560	44,589	59,149
Bank charges	491	-	491
Rent	8,960	-	8,960
Stock-based compensation	36,601	-	36,601
Telephone	646	-	646
Transfer agent and filing fees	5,735	11,200	16,935
Travel	1,262	-	1,262
Net loss and comprehensive loss	(68,255)	(55,789)	(124,044)

The Company has not presented a statement of cash flows as the transition from previous GAAP to IFRS has had no effect upon the reported cash flows generated by the Company.