# APPIA ENERGY CORP.

## FINANCIAL STATEMENTS

**For the years ended September 30, 2013 and 2012**
**(Expressed in Canadian $)**

## MANAGEMENT'S RESPONSIBILITY FOR FINANCIAL STATEMENTS

The accompanying financial statements have been prepared by and are the responsibility of the management of Appia Energy Corp. (the "Company"). The financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") and reflect management's best estimates and judgments based on currently available information. The Company has developed and maintains a system of internal controls in order to ensure, on a reasonable and cost effective basis, the reliability of the financial information.

The Board of Directors is responsible for ensuring that management fulfills its responsibility and is ultimately responsible for reviewing and approving the financial statements. The Board carries out this responsibility principally through its Audit Committee. The financial statements have been audited by Wasserman Ramsay, an independent firm of chartered accountants. Their report outlines the scope of their examination and opinion on the financial statements.

(*signed*) "*Tom Drivas*"
Chief Executive Officer

*(signed) "Michael D'Amico"*
Chief Financial Officer

November 18, 2013

**Wasserman Ramsay**

Chartered Accountants

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# INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Appia Energy Corp.:

We have audited the accompanying financial statements of Appia Energy Corp., which comprise the statements of financial position as at September 30, 2013 and 2012,and the statements of loss and comprehensive loss, cash flows and changes in equity 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.

**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 audits to obtain reasonable assurance about whether the financial statements are free of 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 auditors' 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 auditors 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 is sufficient and appropriate to provide a basis for our opinion.

**Opinion**
In our opinion, these financial statements present fairly, in all material respects, the financial position of Appia Energy Corp. as at September 30, 2013 and 2012 and the results of its operations and 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 describes matters and 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.

Wasserman Ramsay

Markham, Ontario
November 18, 2013

Chartered Accountants
Licensed Public Accountants

# Appia Energy Corp.

***Statements of Financial Position***

***(Expressed in Cdn $)***

| As at | **September 30 2013 $** | September 30 2012 $ |
|---|---|---|
| **Assets** | | |
| Current | | |
| Cash and cash equivalents (note 4) | **1,062,894** | 1,758,567 |
| Cash and cash equivalents for future exploration activities (note 4) | **-** | 601,458 |
| Accounts receivable | **8,165** | 78,953 |
| Prepaid expenses | **16,720** | 19,008 |
| **Total current assets** | **1,087,779** | 2,457,986 |
| | | |
| **Exploration and evaluation assets** | | |
| Acquisition costs (note 5) | **769,093** | 725,916 |
| Deferred exploration expenditures (note 5) | **5,395,054** | 4,517,661 |
| **Total assets** | **7,251,926** | 7,701,563 |
| | | |
| **Liabilities** | | |
| Current | | |
| Accounts payable & accruals (note 9) | **433,488** | 617,624 |
| **Total current liabilities** | **433,488** | 617,624 |
| | | |
| Deferred flow-through share premium liability | **-** | 82,451 |
| Deferred income tax | **556,336** | 601,862 |
| **Total liabilities** | **989,824** | 1,301,937 |
| *Contingencies and commitments (note 12)* | | |
| *Nature of operations and going concern (note 1)* | | |
| | | |
| **Shareholders' equity** | | |
| Share capital (note 6(a)) | **7,835,123** | 7,835,123 |
| Warrants (note 6(c)) | **-** | 1,302 |
| Contributed surplus (note 7) | **2,290,188** | 1,964,222 |
| Deficit | **(3,863,209)** | (3,401,021) |
| **Total shareholders' equity** | **6,262,102** | 6,399,626 |
| **Total liabilities and shareholders' equity** | **7,251,926** | 7,701,563 |

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

APPROVED ON BEHALF OF THE BOARD ON "DATE"

"Signed"
Anastasios (Tom) Drivas

"Signed"
Nick Bontis

## Appia Energy Corp.

***Statements of Changes in Equity***
***(Expressed in Cdn $)***

| | Share Capital $ | Warrants $ | Contributed Surplus $ | Deficit $ | Total $ |
|---|---|---|---|---|---|
| **At September 30, 2011** | 7,796,775 | 117,091 | 1,000,827 | (2,231,599) | 6,683,094 |
| Net loss and comprehensive loss for the period | - | - | - | (1,169,422) | (1,169,422) |
| Common shares issued, net | 28,400 | - | - | - | 28,400 |
| Flow-through shares issued, net | 11,250 | - | - | - | 11,250 |
| Value associated with warrants issued | (1,302) | 1,302 | - | - | - |
| Share-based compensation | - | - | 846,304 | - | 846,304 |
| Common share purchase warrants expired | - | (117,091) | 117,091 | - | - |
| **At September 30, 2012** | 7,835,123 | 1,302 | 1,964,222 | (3,401,021) | 6,399,626 |
| Net loss and comprehensive loss for the period | - | - | - | (462,188) | (462,188) |
| Flow-through warrants expired | - | (1,302) | 1,302 | - | - |
| Share-based compensation | - | - | 324,664 | - | 324,664 |
| **At September 30, 2013** | 7,835,123 | - | 2,290,188 | (3,863,209) | 6,262,102 |

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

## Appia Energy Corp.

***Statements of Loss, and Comprehensive Loss***

***(Expressed in Cdn $)***

| | For the years ended September 30 | |
|---|---|---|
| | **2013** | 2012 |
| | **$** | $ |
| **Expenses** | | |
| Professional fees (note 9) | **104,745** | 188,730 |
| Management fees and salaries (note 9) | **125,188** | 82,000 |
| Office and general (note 9) | **43,807** | 30,109 |
| Shareholder communication | **9,429** | 4,878 |
| Share-based compensation | **324,664** | 846,304 |
| Loss for the period before the following | **(607,833)** | (1,152,021) |
| Interest income | **17,668** | 42,917 |
| Net loss for the period | **(590,165)** | **(1,109,104)** |
| Deferred income tax recovery (expense) | **127,977** | (60,318) |
| **Net loss and comprehensive loss** | **(462,188)** | **(1,169,422)** |
| Weighted average number of shares outstanding | **41,616,078** | 41,611,921 |
| Basic and diluted loss per share | **$ (0.01)** | $ (0.03) |

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

# Appia Energy Corp.

***Statements of Cash Flows***

***(Expressed in Cdn $)***

| | For the years ended September 30 | |
|---|---|---|
| | **2013** | 2012 |
| | **$** | $ |
| **Operating activities** | | |
| Net loss for the period | **(462,188)** | (1,169,422) |
| Items not affecting cash: | | |
| Deferred income tax recovery (expense) | **(127,977)** | 60,318 |
| Share-based compensation | **324,664** | 846,304 |
| | **(265,501)** | (262,800) |
| Net change in non-cash working capital | | |
| Accounts receivable | **70,788** | (73,705) |
| Prepaid expenses | **2,288** | (12,800) |
| Accounts payable and accrued liabilities | **(184,136)** | 317,572 |
| Change from operating activities | **(376,561)** | (31,733) |
| **Investing activities** | | |
| Mineral property acquisition costs | **(43,177)** | - |
| Deferred exploration expenditures | **(877,393)** | (1,311,002) |
| Change from investing activities | **(920,570)** | (1,311,002) |
| **Financing activities** | | |
| Private placement of common shares | **-** | 38,775 |
| Share issue expense | **-** | - |
| Change from financing activities | **-** | 38,775 |
| Change in cash and cash equivalents | **(1,297,131)** | (1,303,960) |
| Cash and cash equivalents, beginning of period | **2,360,025** | 3,663,985 |
| **Cash and cash equivalents, end of period** | **1,062,894** | 2,360,025 |
| **Cash comprises:** | | |
| Cash and cash equivalents | **1,062,894** | 1,758,567 |
| Cash and cash equivalents for future exploration activities | **-** | 601,458 |
| | **1,062,894** | 2,360,025 |

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

### 1. Nature of operations and going concern

Appia Energy Corp. ("Appia" or "the Company") is an unlisted public reporting issuer incorporated in Canada, has interests in resource properties and is in the process of determining whether its properties contain resources that are economically recoverable. The registered office and location of corporate records is Suite 1220, 20 Toronto Street, Toronto, Ontario.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at September 30, 2013 the Company had no sources of operating cash flows. The Company will therefore require additional funding which, if not raised, would result in the curtailment of activities and project delays. The Company had working capital of $654,291 as at September 30, 2013, and has incurred losses since inception, resulting in an accumulated deficit of $3,863,209as at September 30, 2013. The Company's ability to continue as a going concern is uncertain and is dependent upon its ability to continue to raise adequate financing. There can be no assurance that the Company will be successful in this regard, and therefore, there is doubt regarding the Company's ability to continue as a going concern and the use of accounting principles applicable to a going concern. These financial statements do not reflect adjustments that would be necessary if the going concern assumption were not appropriate. If the going concern assumption is not appropriate for these financial statements, then adjustments to the carrying values of the assets and liabilities, the expenses and the balance sheet classifications, which could be material, would be necessary.

The recoverability of expenditures on its resource properties and related deferred exploration expenditures is dependent upon the existence of resources that are economically recoverable, confirmation of the Company's ownership interests in the claims, the ability of the Company to obtain necessary financing to complete the exploration and the development of the properties, and upon future profitable production or proceeds from the disposition of the properties.

### 2. Basis of preparation and statement of compliance

The financial statements of the Company as at and for the year ended September 30, 2013 have been prepared in accordance 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") in effect as of September 30, 2013.

### 3. Summary of significant accounting policies

The accounting policies set out below have been applied consistently to all periods presented in these financial statements

#### Presentation Currency

The Company's presentation currency and functional currency is the Canadian dollar ("$").

#### Significant Accounting Judgments and Estimates

The preparation of financial statements requires management to make estimates, judgments and assumptions that affect the amounts reported in the financial statements and notes. By their nature, these estimates, judgments and assumptions are subject to measurement uncertainty and the effect on the financial statements of changes in such estimates in future periods could be material. These estimates are based on historical experience, current and future economic conditions, and other factors, including expectations of future events that are believed to be reasonable under the circumstances. The more significant estimates and judgments are as follows:

*Critical accounting estimates*

The amounts recorded for share-based compensation transactions are based on estimates using the Black-Scholes valuation model using assumptions for expected volatility, expected number of options to vest, dividend rate, risk-free interest rate and expected life of the options.

The recoverability of amounts shown for exploration and evaluation assets is dependent on the discovery of economical reserves, the ability of the Company to obtain financing to complete development of the properties and on future production or proceeds of disposition.

Management's opinion that there is no material restoration, rehabilitation and environmental obligation is based on the existing facts and circumstances.

Deferred income tax assets and liabilities are computed based on differences between the carrying amounts of assets and liabilities on the statement of financial position and their corresponding tax values. Deferred income tax assets also result from unused loss carry-forwards and other deductions. The valuation of deferred income tax assets is adjusted to reflect the uncertainty of realization through profitable operations.

*Critical accounting judgments*

The following accounting policies involve judgments or assessments made by management:

- The determination of categories of financial assets and financial liabilities;
- The determination of a cash-generating unit for assessing and testing impairment;
- The allocation of exploration costs to cash-generating units; and
- The determination of when an exploration and evaluation asset moves from the exploration stage to the development stage.

**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:

*Accounts receivable* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized 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 Corporation'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 in the statement of earnings in the period of determination.

*Fair value through profit or loss* - This category includes derivatives, and investments 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 in the statement of comprehensive income (loss).

*Available-for-sale* - Non-derivative financial assets not included in the above categories are classified as available-for-sale ("AFS"). They are carried at fair value with changes in fair value recognized directly in other comprehensive earnings. Where a decline in the fair value of an AFS financial asset constitutes objective evidence of impairment, the amount of the loss is removed from other comprehensive earnings and recognized in the statement of comprehensive income (loss).

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets are impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

*Financial liabilities*

The Company classifies its financial liabilities into one of two 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 liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the balance sheet at fair value with changes in fair value recognized in the statement of earnings.

*Other financial liabilities* - This category includes accounts payable and accrued liabilities, all of which are recognized at amortized cost.

Fair value hierarchy:

The Company classifies financial instruments recognized at fair value in accordance with a fair value hierarchy that prioritizes the inputs to the valuation technique used to measure fair value as per IFRS 7. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities (Level 1 measurements) and the lowest priority to unobservable inputs (Level 3 measurements). The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities;

Level 2 – Quoted prices in markets that are not active, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liability; and

Level 3 – Prices or valuation techniques that require inputs that are both significant to the fair value measurement and unobservable (supported by little or no market activity).

The Company has valued all of its financial instruments using Level 1 measurements.

*Impairment of financial assets:*

When an AFS financial asset is considered to be impaired, cumulative gains or losses previously recognized in other comprehensive income or loss are reclassified to profit or loss in the period.

Financial assets are assessed for indicators of impairment at the end of each reporting period.

Financial assets are impaired when there is objective evidence that, 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 investments have been impacted. For marketable securities classified as AFS, a significant or prolonged decline in the fair value of the securities below their cost is considered to be objective evidence of impairment.

For all other financial assets objective evidence of impairment could include:

- significant financial difficulty of the issuer or counterparty; or
- default or delinquency in interest or principal payments; or
- it becoming probable that the borrower will enter bankruptcy or financial reorganization.

For certain categories of financial assets, such as amounts receivable, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by the impairment loss directly for all financial assets with the exception of amounts receivable, where the carrying amount is reduced through the use of an allowance account. When an amount receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

With the exception of AFS equity instruments, if, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

In respect of AFS equity securities, impairment losses previously recognized through profit or loss are not reversed through profit or loss. Any increase in fair value subsequent to an impairment loss is recognized directly in equity.

**Cash and Cash Equivalents**

Cash and cash equivalents consists of cash, demand deposits and high-interest savings vehicles.

**Foreign Currency Translation**

In preparing the financial statements, transactions in currencies other than the entity's functional currency are recorded at the rates of exchange prevailing at the dates of the transactions. At each statement of financial position date, monetary assets and liabilities are translated using the period-end exchange rate. Non-monetary assets and liabilities are translated using the historical rate on the date of the transaction.

All gains and losses on translation of these foreign currency transactions are included in the statement of loss and comprehensive loss.

**Exploration and Evaluation Assets**

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 as incurred. Costs incurred before the Company has obtained the legal rights to explore an area are expensed.

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 mineral resources in an area of interest are demonstrable, which management has determined to be indicated by a feasibility study, exploration and evaluation assets attributable to that area of interest are first tested for impairment and then reclassified to mining property and development assets.

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.

It is management's judgment that none of the Company's exploration and evaluation assets have reached the development stage and as a result are all considered to be exploration and evaluation assets.

**Share-based Compensation**

The Company grants stock options to buy common shares of the Company to directors, officers and service providers. The board of directors generally grants such options for periods of up to five years, with vesting periods determined at its sole discretion and at prices equal to or greater than the closing market price on the day preceding the date the options were granted.

The fair value of share purchase options granted is recognized as an expense with a corresponding increase in equity.

The fair value for share purchase options granted to those providing services is measured at the grant date and each tranche is recognized using the accelerated method basis over the period during which the share purchase options vest. The fair value of the share purchase options granted is measured using the Black-Scholes option pricing model, taking into account the terms and conditions upon which the share purchase options were granted.

At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share purchase options that are expected to vest.

**Income Taxes**

Income tax on the profit or loss consists of current and deferred tax. Income tax expense 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 assets and liabilities are recognized for deferred tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using the enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

A deferred tax asset is recognized to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, the deferred tax asset is reduced.

The following temporary differences do not result in deferred tax assets or liabilities:

- the initial recognition of assets or liabilities, not arising in a business combination, that does not affect accounting or taxable profit;

- goodwill not deductible for tax purposes; and
- investments in subsidiaries, associates and jointly controlled entities where the timing of reversal of the temporary differences can be controlled and reversal in the foreseeable future is not probable.

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

**Restoration, Rehabilitation and Environmental Obligations**

A legal or constructive obligation to incur restoration, rehabilitation and environmental costs may arise when environmental disturbance is caused by the exploration, development or ongoing production of an interest in an exploration and evaluation asset. Such costs arising from the decommissioning of plant and other site preparation work, discounted to their net present value, are provided for and capitalized at the start of each project to the carrying amount of the asset, as soon as the obligation to incur such costs arises. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. These costs are charged against profit or loss over the economic life of the related asset, through amortization using either a unit-of-production or the straight-line method as appropriate. The related liability is adjusted for each period for the unwinding of the discount rate and for changes to the current market-based discount rate, amount or timing of the underlying cash flows needed to settle the obligation.

Costs for restoration of subsequent site damage which is created on an ongoing basis during production are provided for at their net present values and charged against profits as extraction progresses. The Company has no material restoration, rehabilitation and environmental costs as the disturbance to date is minimal.

**Provisions**

A provision is recognised if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. The unwinding of the discount is recognised as a finance expense ("notional interest").

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. If it is no longer probable that an outflow of economic benefits will be required, the provision is reversed. The Company presently does not have any amounts considered to be provisions.

**Flow-through shares**

The Company will, from time to time, issue flow-through common shares to finance a portion of its exploration program. Pursuant to the terms of the flow-through share subscription agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability, and ii) share capital. Upon expenses being incurred, the Company recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders and the premium liability is reversed. The reversal of the premium liability and the deferred tax liability are recognized as tax recoveries to the extent that suitable deferred tax assets are available.

**Loss per share**

Loss per share is calculated using the weighted average number of common shares outstanding during the year. Since the Company is in a loss position, the effects of exercising share purchase options and warrants are anti-dilutive.

### Impairment

Exploration and evaluation assets are reviewed on a quarterly basis and when changes in circumstances suggest their carrying value may become impaired. Management considers exploration and evaluation assets to be impaired if the carrying value exceeds the estimated undiscounted future projected cash flows from the use of the property and its related assets and their eventual disposition. If impairment is deemed to exist, the property and its related assets will be written down to fair value. Fair value is generally determined using a discounted cash flow analysis. Management determined that there was no impairment of carrying value on its properties in the current year.

### Accounting pronouncements issued but not yet adopted

The following standards are effective for annual periods beginning on or after January 1, 2013, with earlier adoption permitted. The Company has not early adopted these standards and is currently assessing the impact they will have on the financial statements.

IFRS 9, Financial instruments, introduces new requirements for the classification, measurement and derecognition of financial instruments. Specifically, IFRS 9 requires all recognized financial assets that are within the scope of IAS 39 Financial Instruments: Recognition and Measurement to be subsequently measured at amortized cost or fair value. IFRS 9 is effective for annual periods beginning on or after January 1, 2015, with earlier application permitted.

IFRS 11, Joint arrangements, requires a venture 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 proportionally consolidate or equity account for interests in joint ventures. IFRS 11 supersedes IAS 31, Interests in Joint Ventures.

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

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

International Accounting Standard 27, Separate Financial Statements ("IAS 27"), replaces IAS 27, Consolidated and Separate Financial Statements and contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9.

International Accounting Standard 28, Investments in Associates and Joint Ventures ("IAS 28"), has been amended as a consequence of the issuance of IFRS 10, IFRS 11, and IFRS 12, and will further provide accounting guidance for investments in associates and will set out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. This standard will be applied by the Company when there is joint control or significant influence over an investee.

IFRS Interpretations Committee Interpretation 20, Stripping costs in the production phase of a surface mine ("IFRIC 20"), sets out the criteria for the capitalization of production stripping costs to non-current assets, and states that stripping activity is recognized as a component of the larger asset to which it relates. In addition, IFRC 20 requires companies to ensure that capitalized costs are amortized over the useful life of the component of the ore body to which access has been improved due to the stripping activity.

International Accounting Standard 32, Offsetting Financial Assets and Financial Liabilities (Amendments to IAS 32) ("IAS 32"), clarifies the application of the offsetting requirements. The amendments are effective for annual periods beginning on or after January 1, 2014, with earlier application permitted.

Disclosures – Offsetting Financial Assets and Financial Liabilities (Amendments to IFRS 7) outlines new disclosure requirements that enable users of the financial statements to better compare financial statements prepared in accordance with IFRS and US Generally Accepted Accounting Principles.

**4. Cash and cash equivalents**

Cash and cash equivalents and cash and cash equivalents held for future exploration activities consists of cash and investments in Canadian Chartered Bank accounts and demand money market funds.

During the year ended September 30, 2013, the Company spent a total of $877,393 on exploration and evaluation activities, including the balance of all funds raised exclusively for Canadian Exploration Expenditures ("CEE") in the prior fiscal years.

**5. Exploration and evaluation assets**

**Acquisition costs**

| | **Ontario Elliot Lake** $ | **Saskatchewan** $ | **Total** $ |
|---|---|---|---|
| Balance, September 30, 2011 | 597,593 | 128,323 | 725,916 |
| Total additions for the period | - | - | - |
| Balance, September 30, 2012 | 597,593 | 128,323 | 725,916 |
| Total additions for the period | - | 43,177 | 43,177 |
| Balance, September 30, 2013 | 597,593 | 171,500 | 769,093 |

**Deferred exploration expenditures**

| | **Ontario Elliot Lake $** | **Saskatchewan $** | **Total $** |
|---|---|---|---|
| Balance, September 30, 2011 | 3,206,659 | - | 3,206,659 |
| Additions: | | | |
| Assaying | 84,440 | - | 84,440 |
| Drilling | 1,084,631 | - | 1,084,631 |
| Contract labour | 102,058 | - | 102,058 |
| Other | 39,873 | - | 39,873 |
| Total additions for the period | 1,311,002 | - | 1,311,002 |
| Balance, September 30, 2012 | 4,517,661 | - | 4,517,661 |
| Additions: | | | |
| Assaying | 213,475 | - | 213,475 |
| Drilling | 241,967 | - | 241,967 |
| Contract labour | 268,450 | 127,504 | 395,954 |
| Other | 25,997 | - | 25,997 |
| Total additions for the period | 749,889 | 127,504 | 877,393 |
| Balance, September 30, 2013 | 5,267,550 | 127,504 | 5,395,054 |

**Ontario, Elliot Lake**

(a) On November 1, 2007, the Company acquired a 100% interest in 61 mining claims known as the Elliot Lake property located in Beange, Bolger, Bouck, Buckles, Gunterman and Joubin Townships, Sault Ste. Marie Mining Division in the Province of Ontario. As part of the acquisition agreement the Company issued 35 million common shares to Canada Enerco Corp. ("CEC"), a company controlled by the President, CEO and Director of the Company, at a stated value of $218,212. CEC retains the right to a 1% Uranium Production Payment Royalty and a 1% Net Smelter Returns Royalty on any precious or base metals payable provided uranium is greater than US$130 per pound.

The Company also entered into two (2) share option agreements with CEC whereby the Company had the option to buy back 1,000,000 of the common shares of the Company at the price of $1 per share, expiring August 31, 2008 and 9,000,000 common shares at the price of $2 per share, subject to adjustment downward, in tranches of 1,000,000 shares, expiring November 2, 2011. In the fiscal year ended September 30, 2008, the Company exercised the first option for the 1,000,000 common shares by payment to CEC of $1,000,000. These shares were cancelled in fiscal 2009. The second option expired unexercised on November 1, 2011.

Pursuant to an Assumption of Obligations Agreement dated November 2, 2007 among the Company, CEC, Quincy Gold Corp. and Energy Metals Corp. ("EMC"), the Company assumed certain obligations of CEC to Quincy and EMC giving the Company a 100% interest in the Elliot Lake property free and clear of all liens, charges and encumbrances in consideration for granting to EMC the right to purchase up to 9.9% of the equity of the Company (the "Participation Right") pursuant to an initial financing or an initial public offering or a going public transaction pursuant to a business combination at the same price and terms as other subscribers and a $250,000 credit (the "Credit") towards the Participation Right. Since the date of the agreement mentioned above, EMC has been acquired by Uranium One. In fiscal year 2008, 250,000 common shares of the Company were issued to EMC in consideration for the Credit.

(b) The Company transferred 2 of the claims acquired from CEC as disclosed in (a) above to Denison Mines Inc. in return for rights of access and use of infrastructure as well as a 3% Net Smelter Returns Royalty on any product produced from the claims. No gain or loss has been recognized on this transfer.

(c) On February 27, 2008, the Company entered into an agreement with Dan Patrie Exploration Ltd. ("DPE") to acquire an option to earn a 100% interest in 6 mineral claims comprising 50 claim units in the Buckles and Joubin Townships in Sault Saint Marie Mining Division in the Province of Ontario in consideration for the payment of $20,000 cash and the issuance of 50,000 common shares at a price of $1 per share. DPE retains the right to a 1% Uranium Production Payment Royalty ("Royalty") payable when the uranium is sold from the claims at a price of at least US$130 per pound. The Company has the right and option to purchase one-half (1/2) of the Royalty from DPE for $1,000,000. If DPE wishes to sell the remaining Royalty to a third party, it shall first offer the remaining Royalty to the Company on the same terms on which they have received the offer from a bona fide third party which they are prepared to accept.

(d) During fiscal 2010 the Company staked an additional 35 claims in the Elliot Lake area for additional cost of $35,950. All staked claims above are subject to the CEC royalty as outlined in paragraph (a) above.

**Saskatchewan, Athabasca Basin**

The Company now holds a 100% mineral rights interest in 64,495 hectares (159,371 acres)in the Athabasca Basin of Saskatchewan and a 75% to 90% mineral rights interest in 1,518 hectares (3,751 acres) and a 100% interest in 7,245 hectares (17,903 acres) in contiguous claims at Alces Lake, near Athabasca Lake in the Province of Saskatchewan.

## 6. Share capital

### (a) Common shares

The Company is authorized to issue an unlimited number of no par value common shares. The number of common shares issued as at September 30, 2012 and 2013 is 41,616,078. The following table provides the details of changes in the number of issued common shares:

| | ***Number*** # | ***Amount*** $ |
|---|---|---|
| Balance, September 30, 2011 | 41,584,358 | 7,796,775 |
| Flow-through common shares issued, net | 9,000 | 11,250 |
| Common shares issued November 15, 2011 | 20,720 | 25,900 |
| Common shares issued December 30, 2011 | 2,000 | 2,500 |
| Less: Value associated with warrants issued | - | (1,302) |
| Balance, September 30, 2012 and 2013 | 41,616,078 | 7,835,123 |

On November 15, 2011, the Company completed a private placement of 20,720 working capital units ("WC unit") at $1.25 per unit for gross proceeds of $25,900. Each WC unit consists of one common share of the Company and one-half of a common share purchase warrant ("WC warrant")..These warrants expired unexercised.

On November 15, 2011, the Company completed a private placement of 9,000 flow-through units ("FT unit") at $1.50 per unit for gross proceeds of $13,500. Each FT unit consists of one flow-through share ("FT share") of the Company and one-half of a common share purchase warrant ("Warrant")..These warrants expired unexercised.

On December 30, 2011, the Company completed a private placement of 2,000 working capital units ("WC unit") at $1.25 per unit for gross proceeds of $2,500. Each WC unit consists of one common share of the Company and one-half of a common share purchase warrant ("WC warrant")., These warrants expired unexercised.

### (b) Common share purchase options

The Company has created a stock option plan for the benefit of directors, officers and consultants. The total number of shares which may be reserved and set aside for issuance to eligible persons may not exceed 10% of the issued and outstanding common shares.

As at September 30, 2013, 2,600,000 common shares were reserved for the exercise of stock options granted under the Company's stock option plan (the "Plan").

A summary of changes in the Company's outstanding stock options for the years ended September 30, 2012 and September 30, 2013 follows:

| | ***Options*** # | **Weighted-average exercise price** $ |
|---|---|---|
| Balance September 30, 2011 | 1,400,000 | 1.25 |
| Granted, fiscal year 2012 | 800,000 | 1.25 |
| Outstanding, September 30, 2012 | 2,200,000 | 1.25 |
| Granted, fiscal year 2013 | 400,000 | 1.25 |
| Outstanding, September 30, 2013 | 2,600,000 | 1.25 |

| Number of stock options | Number exercisable | Remaining contractual life | Exercise price per share | Expiry date |
|---|---|---|---|---|
| 1,000,000 | 1,000,000 | 28.6 months | $1.25 | February 17, 2016 |
| 400,000 | 400,000 | 33.5 months | $1.25 | July 14, 2016 |
| 400,000 | 400,000 | 39.8 months | $1.25 | January 23, 2017 |
| 400,000 | 400,000 | 40.0 months | $1.25 | February 1, 2017 |
| 400,000 | 200,000 | 54.3 months | $1.25 | April 9, 2018 |
| 2,600,000 | 2,400,000 | | | |

The weighted average fair value of all the options granted during the yearis $0.71(2012 - $0.90) per option, each contract fair value having been estimated at the date of grant using the Black-Scholes pricing model with the following assumptions: risk-free weighted-average interest rate ranging from 1.63% to 1.98%, expected dividend yield of nil, expected volatility ranging from86% to 141% and expected life term is 60 months. Under this method of calculation, the Company has recorded $324,664 as stock based compensation during the year ended September 30, 2013, being the fair value of the options vested during the year ended September 30, 2013. Options that have been issued and remain outstanding vest half immediately on the date of grant and half in twelve months from the date of grant.

**(c) Warrants**

On certain issuances of common shares, the Company grants warrants entitling the holder to acquire additional common shares of the Company and the Company grants warrants as consideration for services associated with the placement of such common share issues.

The following table provides the details of changes in the number of outstanding common share purchase warrants:

| | ***Number*** # | $ |
|---|---|---|
| Balance, September 30, 2011 | 1,353,915 | 117,091 |
| Private placement warrants issued | 15,860 | 1,302 |
| Warrants expired | (1,353,915) | (117,091) |
| Balance September 30, 2012 | 15,860 | 1,302 |
| Warrants expired | (15,860) | (1,302) |
| Balance September 30, 2013 | Nil | Nil |

**7. Contributed surplus**

A summary of changes in contributed surplus is as follows:

| | Amount $ |
|---|---|
| Balance, September 30, 2011 | 1,000,827 |
| Stock based compensation | 846,304 |
| Value of expired warrants | 117,091 |
| Balance, September 30, 2012 | 1,964,222 |
| Stock based compensation | 324,664 |
| Value of expired warrants | 1,302 |
| Balance, September 30, 2013 | 2,290,188 |

The number of common shares outstanding on September 30, 2013 was 41,616,078. Taking into account outstanding share purchase options, the fully diluted number of common shares that could have been outstanding on September 30, 2013 was 44,216,078.

## 8. Income tax

The provision for (recovery of) income taxes differs from the amount that would have resulted by applying Canadian federal and provincial statutory tax rates of 26.00% (2012 – 27.25%).

| | 2013<br>$ | 2012<br>$ |
|---|---|---|
| Net loss before taxes | (590,165) | (1,109,104) |
| Income tax expense reconciliation: | | |
| Expected income tax expense (recovery)calculated using statutory rates | (153,400) | (302,200) |
| Tax effect of the following items: | | |
| Non-deductible stock based compensation | 84,400 | 224,168 |
| Non-deductible expenses and other items: | | |
| Non-deductible expenses | 15,600 | 16,350 |
| Small business deduction | 64,200 | 122,000 |
| Non-capital losses recognized | (138,777) | - |
| Income tax expense (recovery) | (127,977) | 60,318 |
| Income tax expense (recovery) consists of: | | |
| Current income taxes | - | - |
| Deferred income taxes | (127,977) | 60,318 |
| | (127,977) | 60,318 |

The Company has incurred tax losses of approximately $774,000 (2012- $852, 000) which may be used to reduce future taxable income. The potential benefit of these losses will expire in the fiscal years ended September 30, if unused, as follows:

| | **Amount**<br>$ |
|---|---|
| 2028 | 98,000 |
| 2029 | 101,000 |
| 2030 | 136,000 |
| 2032 | 219,000 |
| 2032 | 220,000 |
| | 774,000 |

In addition to the above, the Company has approximately $1,425,000 in Canadian Development and Exploration expenditures which can be deducted from taxable income without expiry.

The components of deferred income tax assets (liabilities) are as noted below:

| | **September 30<br>2013<br>$** | September 30<br>2012<br>$ |
|---|---|---|
| Non-capital losses | **122,120** | 132,132 |
| Mineral properties | **(678,456)** | (733,994) |
| Valuation allowance | **-** | - |
| Liability recognized in the financial statements | **(536,336)** | (601,862) |

**9. Related party transactions**

During the year ended September 30, 2013, the Company incurred related party expenses of $115,188 (2012 – $94,000). These expenses related to management fees paid or payable to Tom Drivas, Chief Executive Officer, Frank van de Water, Chief Operating Officer and Michael D'Amico, Chief Financial Officer, and office administration services paid to Romios Gold Resources Inc., a company with a number of common directors and officers. At September 30, 2013, $358,306 (2012-$298,306) of accumulated related party expenditures is due and outstanding to Tom Drivas and is included under accounts payable and accrued liabilities. The amount charged for office administration services is included under office and general expenses.

Compensation of key management personnel and directors for years ending September 30, 2013 and 2012 is summarized as follows:

| | 2013 | 2012 |
|---|---|---|
| Compensation fees | $ 103,188 | $ 82,000 |
| Share-based payments | 324,664 | 846,304 |

Key management personnel were not paid post-retirement benefits, termination benefits, or other long-term benefits during the years ended September 30, 2013 and 2012.

During the year ended September 30, 2013, the Company incurred expenses of $62,228 (2012- $120,732) for legal fees to a law firm related to a senior officer and director of the Company, William R. Johnstone. At September 30, 2013 $5,598 (2012 – $ 31,571) was due and payable to this related party.

As disclosed in Note 5(a) of the financial statements, the Company's major exploration property was acquired from a related party.

**10. Financial instruments and risk management**

*Categories of financial assets and liabilities*

Under IFRS, financial instruments are classified into one of the following five categories: Fair value through profit and loss ("FVTPL"), held to maturity investments, loans and receivables, available-for-sale financial assets and other financial liabilities. The carrying values of the Company's financial instruments, including those held for sale are classified into the following categories:

| | **September 30 2013 $** | September 30 2012 $ |
|---|---|---|
| FVTPL (1) | **1,062,894** | 2,360,025 |
| Receivables (2) | **8,165** | 78,953 |
| Other financial liabilities (3) | **433,488** | 617,624 |

*(1) Includes cash, committed cash and short-term investments.*
*(2) Includes accounts receivable related to HST tax refunds.*
*(3) Includes accounts payable.*

*Financial Instruments*

The carrying amounts for the Company's financial instruments approximate their fair values because of the short-term nature of these items.

(i) Cash and cash equivalents and cash and cash equivalents held for future exploration are designated as FVTPL financial assets and are recorded at market value. The interest on deposits is insignificant.
(ii) HST receivable is designated as loans and receivables and is recorded at cost.
(iii) Accounts payable is designated as other financial liabilities and is recorded at cost.

*Risks arising from financial instruments and risk management*

The Company's activities expose it to a variety of financial risks: market risk (including interest rate risk and price risk), credit risk and liquidity risk. The Company's overall risk management program focuses on the unpredictability of financial markets and seeks to minimize potential adverse effects on the Company.

The Company uses various methods to measure different types of risk to which it is exposed. These methods include sensitivity analysis in the case of interest rate and other price risks.

*Carrying value of exploration and evaluation assets*

The Company regularly reviews the carrying value of its properties for impairment to determine whether the carrying amount of these assets will be recoverable from future cash flows. Assumptions underlying the cash flow estimates include the forecasted prices for gold, copper, silver and molybdenum, planned production levels, and operating, capital, exploration and reclamation costs, which are subject to risks and uncertainties. Management has determined that there is no impairment of carrying value on its Ontario and Saskatchewan properties.

**(a) Market risk**

*(i) Price risk*

*Commodity price risk*

Commodity price risk is the risk of financial loss resulting from movements in the price of the Company's commodity inputs and outputs. The Company is exposed to commodity price risk arising from the fluctuation of the value of the metals for which it is exploring. The Company does not manage commodity price risk through the use of derivative instruments.

*Sensitivity*

Anticipated changes in the value of uranium and rare earth elements would not, in management's opinion, change the recognized value of any of the Company's financial instruments.

*(ii) Cash flow fair value interest rate risk*

The Company does not have interest-bearing borrowings for which general rate fluctuations apply. The Company is exposed to interest rate risk to the extent of the balance of the bank accounts.

**(b) Credit risk**

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in financial loss to the group. Credit risk arises from cash and deposits with banks and financial institutions as well as credit exposures to outstanding receivables.

The Company has no concentration of credit risk. The carrying amounts of financial assets recorded in the financial statements are adjusted for any impairment and represent the Company's maximum exposure to credit risk.

**(c) Liquidity risk**

Prudent liquidity risk management implies maintaining at all times sufficient cash, liquid investments and committed credit facilities to meet the Company's commitments as they arise. The Company manages liquidity risk by maintaining adequate cash reserves and by continuously monitoring forecast and actual cash flows. The Company is currently assessing all options to address its liquidity issues. It is not possible to determine with any certainty the success and adequacy of these initiatives.

**11. Capital disclosures**

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of exploration and evaluation assets. The capital of the Company consists of capital stock, warrants and contributed surplus.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the Company will spend its existing working capital and intends to raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

There were no changes in the Company's approach to capital management during the year ended September 30, 2012 and 2013. The Company is not subject to externally imposed capital requirements.

**12. Contingencies and commitments**

In January of 2013, the Company was served with a summons under Section 24 of the Provincial *Offences Act* charging the Company with an offence under Section 36(1) of the *Lakes and Rivers Improvement Act*, R.S.O. 1990, Chapter L.3 and Section 2(1) (d) Ontario Regulation 453/96 made under the *Public Lands Act*, R.S.O. 1990, Chapter P.43 relating to a minor incident that occurred in July of 2012 during the Company's summer drill program at Elliot Lake. The Company has not received any further particulars of the offence or the details relating thereto and is investigating the matter. No allegations have been proven in court and it is not possible to determine the amount of any liability to the Company at this time. While the Company and the drilling contractor retained by the Company both maintain insurance coverage, it is not possible to determine whether such insurance is applicable or adequate at this time. The Company is of the view that it took all steps necessary at the time to alleviate the problem and will take all steps necessary to ensure appropriate remediation has been effected once it is able to obtain full particulars of the offence from the prosecutor.