GWR Resources Inc.
(An Exploration Stage Company)

FINANCIAL STATEMENTS
(Expressed in Canadian Dollars)

FOR THE YEARS ENDED SEPTEMBER 30, 2012 AND 2011

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Tel: 604 688 5421
Fax: 604 688 5132
www.bdo.ca

BDO Canada LLP
600 Cathedral Place
925 West Georgia Street
Vancouver BC V6C 3L2 Canada

Independent Auditor's Report

To the shareholders of GWR Resources Inc.

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

Management's Responsibility for the Financial Statements

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

Auditor's Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the 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 GWR Resources Inc. as at September 30, 2012, September 30, 2011 and October 1, 2010 and its financial performance and cash flows for the years ended September 30, 2012 and September 30, 2011, in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without qualifying our opinion, we draw attention to Note 2 in the financial statements, which indicates that the Company incurred a net loss of $2,561,966 during the year ended September 30, 2012 has accumulated losses of $21.7 million and, as of that date, is expected to incur further losses. These conditions, along with other matters as set forth in Note 2, indicate the existence of a material uncertainty that may cast significant doubt upon the Company's ability to continue as a going concern.

(signed) "BDO Canada LLP"

Chartered Accountants
April 1, 2013

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GWR RESOURCES INC.

(An Exploration Stage Company)
Statements of Financial Position
(Expressed in Canadian Dollars)

As at:	Note	September 30, 2012	September 30, 2011	October 1, 2010
			(Note 19)	(Note 19)
ASSETS		($)	($)	($)
Current assets				
Cash and cash equivalents		638,646	4,884,731	300
Trade and other receivables	11	209,907	212,111	3,635
Prepaid expenses and deposits	6	-	221,730	44,565
Total current assets		848,553	5,318,572	48,500
Non-current assets				
Reclamation deposits	5	134,000	134,000	134,000
Exploration and evaluation assets	6	28,116,913	23,850,077	19,841,428
Property, plant and equipment	7	1,170,830	894,873	471,565
Other assets		1,008	1,008	2,808
Total non-current assets		29,422,751	24,879,958	20,449,801
Total assets		30,271,304	30,198,530	20,498,301
LIABILITIES AND SHAREHOLDERS' EQUITY				
Current liabilities				
Trade payables and other liabilities	8,11	464,580	723,800	634,705
Due to related parties	11	-	-	135,400
Current portion of long-term debt	10	77,464	77,464	76,507
Current portion of finance leases	9	91,356	-	-
Total current liabilities		633,400	801,264	846,612
Non-current liabilities				
Finance leases	9	84,328	-	-
Deferred taxes	15	4,558,290	4,685,460	3,983,213
Total non-current liabilities		4,642,618	4,685,460	3,983,213
Total liabilities		5,276,018	5,486,724	4,829,825
Shareholders' equity				
Issued capital	12	34,892,826	32,503,248	21,188,703
Contributed surplus		11,854,549	11,398,681	11,988,582
Accumulated deficit		(21,752,089)	(19,190,123)	(17,508,809)
Total shareholders' equity		24,995,286	24,711,806	15,668,476
Total liabilities and shareholders' equity		30,271,304	30,198,530	20,498,301

"John Van Driesum" Director *"Rob Shives"* Director

John Van Driesum Rob Shives

See accompanying notes to these financial statements.

GWR RESOURCES INC.

(An Exploration Stage Company)
Statements of Comprehensive Loss
For the years ended September 30, 2012 and 2011
(Expressed in Canadian Dollars)

	Note	2012 ($)	2011 ($)
			(Note 19)
EXPENSES			
Amortization	**7**	75,920	58,383
Consulting and management fees	**11**	223,568	120,456
Employee costs		140,781	194,361
Entertainment, promotion and advertising		70,478	14,035
Insurance, licenses and dues		71,868	72,299
Office and general		92,179	91,899
Professional fees		105,051	117,114
Stock-based compensation	**12**	374,913	164,389
Telephone and utilities		20,070	11,840
Travel		67,713	22,418
Vehicle maintenance fees		10,323	21,687
Loss before other items and taxes		**1,252,864**	**888,881**
OTHER ITEMS			
Interest and other income		19,456	11,286
Bank charges and finance costs	**9,12**	(23,676)	(70,751)
Write-off of exploration and evaluation assets	**6**	(1,430,709)	-
Loss on disposal of equipment		(1,343)	(30,721)
		(1,436,272)	(90,186)
Loss before taxes		**2,689,136**	**979,067**
Deferred tax expense/(recovery)	**15**	(127,170)	702,247
Net loss and comprehensive loss for the year		**2,561,966**	**1,681,314**
Loss per share			
- basic and diluted		($0.02)	($0.01)
Weighted average number of shares outstanding			
- basic and diluted		118,603,827	112,253,065

See accompanying notes to these financial statements.

GWR RESOURCES INC.

(An Exploration Stage Company)
Statements of Changes in Equity
For the years ended September 30, 2012 and 2011
(Expressed in Canadian Dollars)

	Number of shares	Share Capital ($)	Contributed Surplus ($)	Accumulated Deficit ($)	Total ($)
Balance, October 1, 2010 (Note 19)	**82,753,162**	**21,188,703**	**11,988,582**	**(17,508,809)**	**15,668,476**
Private Placements	21,552,167	5,590,000	-	-	5,590,000
Share issue costs	-	(468,905)	87,320	-	(381,585)
Exercise of warrants	28,385,929	6,521,517	(1,433,792)	-	5,087,725
Exercise of stock options	460,000	133,761	(48,061)	-	85,700
Exercise of agent's unit options	1,855,005	96,679	(25,060)	-	71,619
Shares issued for mineral properties	175,000	56,000	-	-	56,000
Shares issued for loan bonus	189,486	50,796	-	-	50,796
Fair value of warrants issued	-	(674,943)	674,943	-	-
Stock-based compensation	-	9,640	154,749	-	164,389
Comprehensive loss for the year (Note 19)	-	-	-	(1,681,314)	(1,681,314)
Balance, September 30, 2011 (Note 19)	**135,370,749**	**32,503,248**	**11,398,681**	**(19,190,123)**	**24,711,806**
Private Placement	7,030,700	843,684	-	-	843,684
Share issue costs	-	(107,567)	-	-	(107,567)
Shares issued for the acquisition of mineral properties	2,440,000	609,600	-	-	609,600
Fair value of warrants issued	-	(120,258)	120,258	-	-
Warrants exercised	4,414,093	1,110,566	(160,150)	-	950,416
Share purchase options exercised	170,000	53,553	(23,153)	-	30,400
Fair value of warrants issued to Candorado	-	-	144,000	-	144,000
Stock-based compensation	-	-	374,913	-	374,913
Comprehensive loss for the year	-	-	-	(2,561,966)	(2,561,966)
Balance, September 30, 2012	**149,425,542**	**34,892,826**	**11,854,549**	**(21,752,089)**	**24,995,286**

See Note 12 for details.

See accompanying notes to these financial statements.

GWR RESOURCES INC.

(An Exploration Stage Company)
Statements of Cash Flows
For the years ended September 30, 2012 and 2011
(Expressed in Canadian Dollars)

	2012 ($)	2011 ($) (Note 19)
Cash flows from (used in) operating activities:		
Net loss for the year	(2,561,966)	(1,681,314)
Items not involving cash:		
Amortization	75,920	58,383
Write-off of receivable balances	56,522	-
Finance lease interest	15,795	-
Stock based compensation	374,913	164,389
Deferred tax expense/(recovery)	(127,170)	702,247
Shares issued for settlement of loan interest	-	50,796
Loss on disposal of property, plant and equipment	1,343	30,721
Write-off of exploration and evaluation assets	1,430,710	-
	(733,933)	(674,778)
Changes in non-cash working capital items:		
Receivables	(29,318)	(202,776)
Prepaid expenses	221,730	(177,165)
Other assets	-	1,800
Accounts payable and accrued liabilities	(284,220)	53,192
Interest accrued on current portion of long-term debt	-	957
Net cash used in operating activities	**(825,741)**	(998,770)
Cash flows from (used in) investing activities		
Purchase of property, plant and equipment	(170,337)	(518,612)
Proceeds from sale of property and equipment	-	500
Acquisition of mineral properties	(908,802)	(25,000)
Expenditures on deferred exploration and development	(3,972,070)	(3,927,649)
Net cash used for investing activities	**(5,051,209)**	(4,470,761)
Cash flows from (used in) financing activities		
(Repayment of)/advances from related parties	-	(135,400)
Proceeds from issuance of capital stock	1,824,500	10,911,364
Share issue costs	(107,567)	(422,002)
Payments for finance leases	(70,273)	-
Payments for finance lease charges	(15,795)	-
Net cash from financing activities	**1,630,865**	10,353,962
Increase/(decrease) in cash and cash equivalents during the year	**(4,246,085)**	4,884,431
Cash and cash equivalents, beginning of year	4,884,731	300
Cash and cash equivalents, end of year	**638,646**	4,884,731

Supplemental disclosure with respect to cash flows – Note 16

See accompanying notes to these financial statements.

1. CORPORATE INFORMATION

GWR Resources Inc. (the "Company", "GWR" or "we"), incorporated under the Business Corporations Act (British Columbia), is an exploration stage company, with no subsidiaries, engaged principally in the acquisition and exploration of mineral properties in Canada. The Company is listed on the TSX Venture Exchange, having a symbol of GWQ-V, as a Tier 2 mining issuer and is in the process of exploring its mineral properties in British Columbia.

The address of the Company's registered office is 1000 - 840 Howe Street, Vancouver, British Columbia, Canada, V6Z 2M1.

2. BASIS OF PREPARATION

(a) Statement of Compliance

These financial statements of the Company 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").

This is the first time that the Company has prepared its annual financial statements in accordance with IFRS, having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("pre-changeover Canadian GAAP").

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 19.

The financial statements were authorized for issue by the Board of Directors on April 1, 2013.

(b) Basis of Measurement

The financial statements have been prepared on a historical cost basis and are presented in Canadian dollars, which is also the Company's functional currency. Amounts disclosed are not rounded.

The preparation of financial statements in compliance with IFRS requires management to make certain critical accounting estimates. It also requires management to exercise judgment in applying the Company's accounting policies. The areas involving a higher degree of judgment and complexity or areas where assumption and estimates are significant to the financial statements are disclosed in Note 4.

2. BASIS OF PREPARATION (Continued)

(c) Nature of Operations and Ability to Continue as a Going Concern

These financial statements have been prepared in accordance with accounting principles applicable to a going concern, which assumes that the Company will realize its assets and discharges its liabilities in the ordinary course of business. At September 30, 2012, the Company has working capital of $215,153, has an accumulated deficit of $21,752,089, incurred a loss of $2,561,966 for the year ended September 30, 2012 and expects to incur further losses in the development of its business. Moreover, the Company has an outstanding debt to a third party which is in default and is committed to incur approximately $843,000 in the calendar year 2013 under a flow-through arrangement in which the Company does not have sufficient funds to complete at this time. These conditions indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

The Company's continuing operations and its ability to discharge its liabilities and fulfill its commitments as they come due, is dependent upon the ability of the Company to continue to obtain debt or equity financing in the short term, the continued support of related parties, and ultimately, on locating economically recoverable ore reserves in its mineral properties. Management believes the Company will be successful at securing additional funding, however, be no assurance that such plans will be successful.

If the Company is unable to obtain adequate additional financing and the continued support of related parties, the Company will be required to curtail operations and exploration activities. Furthermore, failure to continue as a going concern would require restatement of assets and liabilities on a liquidation basis, which would differ significantly from the going concern basis.

The underlying value and the recoverability of amounts shown for exploration and evaluation assets is dependent upon: the discovery of economically recoverable ore reserves in its mineral properties; the ability of the Company to obtain the necessary financing to complete exploration activities and upon future profitable production from or the proceeds from the disposition of its mineral properties.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

a) Segment Reporting

The Company operates in a single reportable operating segment – the acquisition, exploration and development of mineral properties. All significant assets are held within Canada.

b) Cash and Cash Equivalents

Cash and cash equivalents includes cash on hand, deposits with financial institutions and other short-term, highly liquid investments with original maturities of three months or less that are readily convertible to known amounts of cash and subject to insignificant risk of change in value. For cash flow statement presentation purposes, cash and cash equivalents includes bank overdrafts.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

c) Reclamation Deposits

Cash which is subject to contractual restrictions on use is classified separately as reclamation deposits. Reclamation deposits are classified as non-current assets.

d) Mineral Exploration and Evaluation Expenditures

Pre-Exploration Costs

Pre-Exploration costs are expensed in the year in which they are incurred.

Exploration and Evaluation Expenditures

Once the legal right to explore a property has been acquired, cost directly to exploration and evaluation expenditures ("E&E") are recognized and capitalized, in addition to the acquisition cost. These direct expenditures include such cost as materials used, surveying costs, drilling coast, payments made to contractors and depreciation on plant and equipment during the exploration phase. Cost not directly attributable to exploration and evaluation activities, including general administrative overhead cost, are expensed in the year in which they occur.

The Company my occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the transferee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of comprehensive loss/income.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount. The recoverable amount is the higher of the asset's fair value less costs to sell and value in use.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as 'mines under construction'. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Mineral exploration and evaluation expenditures are classified as intangible assets.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

e) Property, Plant and Equipment

Recognition and Measurement

On initial recognition, property, plant and equipment are valued at cost, being the purchase price and directly attributable cost of acquisition or construction required to bring the asset to the location and condition necessary to be capable of operating in a manner intended by the Company, including appropriate borrowing costs and the estimated present value of any future unavoidable costs of dismantling and removing items. The corresponding liability is recognized within provisions.

Property, plant and equipment is subsequently measured at cost less accumulated amortization, less any accumulated impairment losses, with the exception of land which is not amortized.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Subsequent Costs

Subsequent costs are included in the asset's carrying amount or recognized as a separate asset, as appropriate, only when it is probable that future economic benefits associated with the item will flow to the Company and the cost of the item can be measured reliably. All other repairs and maintenance are charged to the statement of comprehensive loss during the financial period in which they are incurred.

Major Maintenance and Repairs

The cost of replacing part of an item of property, plant and equipment is recognized in the carrying amount of the item if it is probable that the future economic benefits embodied within the part will flow to the Company and its cost can be measured reliably. The carrying amount of the replaced part is derecognized. The costs of the day-to-day servicing of property, plant and equipment are recognized in statement of comprehensive loss as incurred.

Gains and Losses

Gains and losses on disposal of an item of property, plant and equipment are determined by comparing the proceeds from disposal with the carrying amount, and are recognized net within other income in statement of comprehensive loss.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Amortization

Amortization is recognized in the statement of comprehensive loss and is recognized at the following rates over the assets economic useful life:

Buildings	5%
Field equipment	20%
Vehicles	20%
Office furniture and equipment	20%
Computer equipment	33%
Computer software	50%
Leased equipment	5 years straight-line

Amortization methods, useful lives and residual values are reviewed at each financial year end and adjusted if appropriate.

f) Leased Assets

Where substantially all of the risks and rewards incidental to ownership of a leased asset have been transferred to the Company (a "finance lease"), the asset is treated as if it had been purchased outright. The amount initially realized as an asset is the lower of the fair value of the leased property and the present value of the minimum lease payments payable over the term of the lease. The corresponding lease commitment is shown as a liability. Lease payments are analyzed between capital and interest. The interest element is charged to the statement of comprehensive loss over the period of the lease and is calculated so that it represents a constant proportion of the lease liability. The capital element reduces the balance owed to the lessor.

Where substantially all of the risks and rewards incidental to ownership are not transferred to the Company (an "operating lease"), the total rent payable under the lease is charged to the statement of comprehensive loss on a straight-line basis over the lease term. The aggregate benefit of lease incentives is recognized as a reduction of the rental expense over the lease term on a straight-line basis.

g) Impairment of Non-Financial Assets

Impairment tests on intangible assets with indefinite useful economic lives are undertaken annually at the financial year-end. Other non-financial assets, including exploration and evaluation assets are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the asset's cash generating unit.

An impairment loss is charged to the statement of comprehensive loss except to the extent they reversed gains previously recognized in other comprehensive loss.

h) Loss Per Share

Loss per share is calculated using the weighted average number of common shares outstanding during the period. The computation of diluted earnings per share is performed by presuming the exercise of outstanding options, warrants and similar instruments. It assumes that the proceeds of such exercise would be used to re-purchase common shares at the average market price during the period. However, the calculation of diluted loss per share excludes the effects of conversions or exercise of options and warrants if they would be anti-dilutive.

Contingent warrants as a result of exercising agents' options are not included in this computation.

i) Provisions

Rehabilitation Provision

The Company may be subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

Additional environmental disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

Other Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal and constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

j) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in net income except to the extent that it relates to a business combination or items recognized directly in equity or in other comprehensive loss/income.

Current income taxes are recognized for the estimated income tax payable or receivable on taxable income or loss for the current year and any adjustment to income taxes payable in respect of previous years. Current income taxes are determined using tax rates and tax laws that have been enacted or substantively enacted by the year-end date.

Deferred tax assets and liabilities are recognized where the carrying amount of an asset or liability differs from its tax base, except for taxable temporary differences arising on the initial recognition of goodwill and temporary differences arising on the initial recognition of an asset or liability in a transaction which is not a business combination and at the time of the transaction affects neither accounting or taxable profit or loss.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary difference is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period the Company reassesses unrecognized deferred tax assets. The Company recognizes a previously unrecognized deferred tax asset to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

k) Share capital

Financial instruments issued by the Company are classified as equity only to the extent that they do not meet the definition of a financial liability or financial asset. The Company's common shares, share warrants, stock options and flow-through shares are classified as equity instruments.

l) Share-based payments

Where equity-settled share options are awarded to employees, the fair value of the options at the date of grant is charged to the statement of comprehensive loss over the vesting period. Performance vesting conditions are taken into account by adjusting the number of equity instruments expected to vest at each reporting date so that, ultimately, the cumulative amount recognized over the vesting period is based on the number of options that eventually vest. Non-vesting conditions and market vesting conditions are factored into the fair value of the options granted. As long as all other vesting conditions are satisfied, a charge is made irrespective of whether these vesting conditions are satisfied. The cumulative expense is not adjusted for failure to achieve a market vesting condition or where a non-vesting condition is not satisfied.

Where the terms and conditions of options are modified before they vest, the increase in the fair value of the options, measured immediately before and after the modification, is also charged to the statement of comprehensive loss over the remaining vesting period.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Where equity instruments are granted to employees, they are recorded at the fair value of the equity instrument granted at the grant date. The grant date fair value is recognized in comprehensive loss/income over the vesting period, described as the period during which all the vesting conditions are to be satisfied.

Where equity instruments are granted to non-employees, they are recorded at the fair value of the goods or services received in the statement of comprehensive loss, unless they are related to the issuance of shares. Amounts related to the issuance of shares are recorded as a reduction of share capital.

When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of a valuation model.

All equity-based share-based payments are reflected in contributed surplus, until exercised. Upon exercise, shares are issued and the amount reflected in contributed surplus is credited to share capital, adjusted for any consideration paid.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

m) Share issuance costs

Costs directly identifiable with the raising of share capital financing are charged against share capital. Share issuance costs incurred in advance of share subscriptions are recorded as non-current deferred assets. Share issuance costs related to uncompleted share subscriptions are charged to operations.

n) Valuation of warrants

Warrants or options issued to agents as consideration or part consideration for services related to share issuances are valued at the fair value of the warrants on the date of grant, determined using the Black-Scholes option-pricing model. Option pricing models require the input of highly subjective assumptions, including the expected price volatility, the expected dividends, the expected life of the option and the risk-free interest rate for the expected term of the option. Changes to these assumptions can materially affect the fair value estimate.

Upon exercise of the warrants, consideration paid by the warrant holder together with the amount previously recognized in contributed surplus is recorded as an increase to share capital.

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

o) Share consideration

Stock options and other equity instruments issued as purchase consideration in non-cash transactions, other than as consideration for mineral properties, are recorded at the fair value determined by management using the Black-Scholes option pricing model. The fair value of the shares issued as purchase consideration for mineral properties is based upon the closing price of those shares on the TSX Venture Exchange ("TSX.V") on the date of the agreement to issue shares. The fair value of the shares issued as option payments for mineral properties is based upon the closing price of those shares on the TSX.V on the date the Company has a legal obligation to issue the shares.

p) Flow-through shares

The Company will from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share 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 expenditures being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized as other income and the related deferred tax is recognized as a tax provision.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period. The portion of the proceeds received but not yet expended at the end of the Company's reporting year is disclosed separately as flow-through share proceeds in Note 8.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

q) Financial instruments

The following is a summary of the accounting model the Company has elected to apply to each of its significant categories of financial instruments outstanding:

Cash and cash equivalents	Loans and receivables
Reclamation deposits	Loans and receivables
Receivables	Loans and receivables
Trade payables and accrued liabilities	Other financial liabilities
Long-term debt	Other financial liabilities
Due to related parties	Other financial liabilities

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Financial Assets

Financial assets are classified into the following category based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for its financial assets is as follows:

Loans and Receivables

These assets are non-derivative financial assets resulting from the delivery of cash and other assets by a lender to a borrower in return for a promise to repay on a specified date or dates, or on demand. They are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue and subsequently carried at amortized cost, using the effective interest rate method, less any impairment losses. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in the profit or loss when the loans and receivables are derecognized or impaired, as well as through the amortization process.

Impairment on Financial Assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Financial Liabilities

Financial liabilities are classified as other financial liabilities, based on the purpose for which the liability was incurred, and comprise of trade payables and accrued liabilities. These liabilities are initially recognized at fair value net of any transaction cost directly attributable to the issuance of the instrument and subsequently carried at amortized cost using the effective interest rate method. This ensures that any interest expense over the period to repayment is at a constant rate on the balance of the liability carried in the statement of financial position. Interest expense in this context includes initial transaction costs and premiums payable on redemption, as well as any interest or coupon payable while the liability is outstanding.

Trade and other payables represent liabilities for goods and services provided to the Company prior to the end of the period which are unpaid.

r) Standards, Amendments and Interpretations Not Yet Effective

The following new standards and interpretations have been issued by the IASB but are not yet effective:

3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

IFRS 9 Financial Instruments

IFRS 9 is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods beginning on or after January 1, 2015. The Company is in the process of evaluating the impact of the new standard.

IFRS 10 Consolidated Financial Statements

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

IFRS 11 Joint Arrangements

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

IFRS 12 Disclosure of Interests in Other Entities

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

IFRS 13 Fair Value Measurement

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

4. CRITICAL ACCOUNTING ESTIMATES AND JUDGMENTS

The preparation of these financial statements requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. These financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. 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.

(a) Critical accounting estimates

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

i. the inputs used in accounting for share-based compensation expense in statement of comprehensive loss; and

ii. the provision for taxes recovery or tax credits which are included in statement of comprehensive loss and the composition of deferred income tax liabilities included in the statement of financial position relating to flow-through share issuances.

(b) Critical accounting judgments

Critical accounting judgments made by the Company include, but are not limited to, the following:

i. The application of the Company's accounting policy for exploration and evaluation expenditure requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after expenditure is capitalized, information becomes available suggesting that the recovery of expenditure is unlikely, the amount capitalized is written off in the statement of comprehensive loss in the period the new information becomes available.

ii. When flow-through capital raisings are performed, there is judgment required as to which exploration and evaluation expenditure qualifies to be renounced.

iii. The useful lives and discount rates used in the accounting for finance leases require judgment when being determined to ensure the transactions accurately reflect their economic substance.

5. RECLAMATION DEPOSITS

The Company is required to make reclamation deposits in respect of its expected rehabilitation obligations. The reclamation deposits represents collateral for possible reclamation activities necessary on mineral properties in connection with the permits required for exploration activities by the Company. The Company is contingently liable to the HSBC Bank of Canada in connection with letters of guarantee issued by the bank on behalf of the Ministry of Mines in the amount of $134,000 (2011 - $134,000). The letters of guarantee are secured by certificates of deposits with a maturity date of April 19, 2013.

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES

	Lac La Hache	Sainte Sabine	Total
	$	$	$
Balance at October 1, 2010	**19,662,037**	**179,391**	**19,841,428**
Exploration costs (1)	3,613,647	314,002	3,927,649
Acquisition of property	-	81,000	81,000
Balance at September 30, 2011	**23,275,684**	**574,393**	**23,850,077**
Exploration costs (1)	3,179,547	856,316	4,035,863
Acquisition of property (2)	1,661,682	-	1,661,682
Impairment recognized (3)	-	(1,430,709)	(1,430,709)
Balance at September 30, 2012	**28,116,913**	**-**	**28,116,913**

(1) Exploration costs for the year included depreciation of leased equipment in the amount of $66,678 (2011 - $nil).

(2) See Candorado Option Agreement for further details.

(3) The Company has discontinued its option agreement for exploration of the Sainte Sabine mineral interests and written-off its carrying value.

Lac La Hache

The following descriptions apply to adjacent properties in the Clinton Mining and Cariboo Divisions located near Lac La Hache, British Columbia:

(a) Miracle/Murphy

The Company owns a 100% interest in four mineral claims located in the Clinton Mining Division of British Columbia, located near Lac La Hache. Under the terms of an agreement dated October 27, 1994, there is a 1% net smelter return (NSR) due to the original vendor to a maximum of $1,500,000.

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

(b) Peach Lake

The Company owns an 80% interest in seven mineral claims located in the Clinton Mining Division of British Columbia, located near Lac La Hache. Under the terms of an agreement dated December 1, 1994, there is a 3% NSR due to the original vendor on four of the seven claims to a maximum of $500,000.

(c) Ann

The Company owns a 100% interest in two mineral claims located in the Clinton Mining Division of British Columbia, located near Lac La Hache. Under the terms of the agreements, the Company is not required to pay a NSR to the original vendor.

(d) Murphy Lake

The Company owns a 100% interest in six mineral claims located in the Cariboo Mining Division of British Columbia, located near Lac La Hache. Under the terms of an agreement dated June 3, 1997, the Company has agreed with the original vendor to issue 300,000 common shares, when it is confirmed that an ore body exists and the plans to commence commercial production are in place, and pay a 3% NSR to a maximum of $1,000,000.

(e) PMA/Cassidy

The Company owns a 100% interest in four mineral claims, located in the Cariboo Mining Division of British Columbia, located near Lac La Hache. Under the terms of the agreement dated February 14, 2000, the Company is not required to pay a net smelter return to the original vendor.

(f) Candorado Option Agreement

During the year ended September 30, 2012, the Company and Candorado Operating Company Ltd. (TSXV: CDO) entered into an option agreement whereby the Company acquired a 100% interest in 89 unpatented mineral claims located east of Williams Lake, BC, near Lac La Hache. Consideration paid was as follows:

a) Cash payments:
- $870,000. During 2011, $170,000 of this balance was held as a refundable deposit, which has been applied to the purchase during the current period. The remaining $700,000 was paid during the current year.

b) Common shares:
- Issuance of 2,400,000 common shares, valued at $600,000.

c) Share purchase warrants:
- Issuance of 2,000,000 share purchase warrants with each warrant exercisable to purchase one additional common share at an exercise price of $0.40 until January 2014. These warrants were valued at $144,000.

The agreement was originally subject to a 2% net smelter royalty but this was waived by the vendor in an amendment to the agreement.

6. MINERAL PROPERTIES AND DEFERRED EXPLORATION EXPENDITURES (Continued)

Sainte Sabine

The Company had entered into an option agreement to purchase a 100%, subject to a 0.5% NSR, interest in 81 mineral claims, plus 6 pending claims, located in Bellechase and Rolette townships in Quebec. In consideration, the Company was to pay the vendor a total of $310,000 and issue 1,575,000 common shares over a six year period as follows:

a) Cash payments
- $25,000 on or before July 1, 2011 (paid)
- $35,000 on or before July 1, 2012
- $45,000 on or before July 1, 2013
- $55,000 on or before July 1, 2014
- $65,000 on or before July 1, 2015
- $75,000 on or before July 1, 2016

b) Common shares
- 175,000 on or before July 1, 2011 (issued)
- 200,000 on or before July 1, 2012
- 225,000 on or before July 1, 2013
- 250,000 on or before July 1, 2014
- 275,000 on or before July 1, 2015
- 300,000 on or before July 1, 2016

c) Exploration expenditures:
- An aggregate of $400,000 by or before July 1, 2011
- An aggregate of $900,000 by or before July 1, 2012
- An aggregate of $1,500,000 by or before July, 2013
- An aggregate of $2,200,000 by or before July, 2014
- An aggregate of $3,000,000 by or before July, 2015
- An aggregate of $4,000,000 by or before July, 2016

During the year ended September 30 2012, management decided not to continue with the option and accordingly costs to date of $1,430,710 were written off.

7. PROPERTY AND EQUIPMENT

	Field Equipment	Vehicles	Leased Equipment	Office Furniture	Computer Equipment	Software	Buildings	Land	TOTAL
	$	$	$	$	$	$	$	$	$
COST									
Balance at October 1, 2010	**145,665**	**88,749**	**-**	**58,928**	**11,611**	**11,048**	**306,811**	**66,252**	**689,064**
Reclassification	(11,692)	-	-	11,692	-	-	-	-	-
Additions	819	36,398	-	8,099	19,711	24,695	362,440	66,752	518,914
Disposals	-	(18,000)	-	(6,139)	-	-	-	-	(24,139)
Write-down	(43,206)	(9,000)	-	(6,126)	-	-	-	-	(58,332)
Balance at September 30, 2011	**91,586**	**98,147**	**-**	**66,454**	**31,322**	**35,743**	**669,251**	**133,004**	**1,125,507**
Additions (2)	22,136	21,366	370,245	-	5,556	10,505	-	-	429,808
Disposals	-	(5,000)	-	(9,411)	-	-	-	-	(14,411)
Balance at September 30, 2012	**113,722**	**114,513**	**370,245**	**57,043**	**36,878**	**46,248**	**669,251**	**133,004**	**1,540,904**
ACCUMULATED AMORTIZATION									
Balance at October 1, 2010	**71,672**	**33,491**	**-**	**50,611**	**6,728**	**10,446**	**44,551**	**-**	**217,499**
Reclassification	(1,401)	-	-	(3,482)	4,883	-	-	-	-
Amortization for the year (1)	9,121	12,222	-	2,918	5,473	6,475	22,174	-	58,383
Disposals	-	(9,619)	-	(2,994)	-	-	-	-	(12,613)
Write-down	(24,700)	(5,033)	-	(2,902)	-	-	-	-	(32,636)
Balance at September 30, 2011	**54,692**	**31,061**	**-**	**44,151**	**17,084**	**16,921**	**66,725**	**-**	**230,634**
Amortization for the year (1)	9,593	15,185	66,678	1,143	7,836	12,037	30,126	-	142,598
Disposals	-	(3,158)	-	-	-	-	-	-	(3,158)
Balance at September 30, 2012	**64,285**	**43,088**	**66,678**	**45,294**	**24,920**	**28,958**	**96,851**	**-**	**370,074**
CARRYING AMOUNTS									
At October 1, 2010	73,993	55,258	-	8,317	4,883	602	262,260	66,252	471,565
At September 30, 2011	36,894	67,086	-	22,303	14,238	18,822	602,526	133,004	894,873
At September 30, 2012	**49,437**	**71,425**	**303,567**	**11,749**	**11,958**	**17,290**	**572,400**	**133,004**	**1,170,830**

(1) Included in amortization of $142,598 is $66,958 (2011 - $nil) capitalized to exploration expenditure and $75,920 (2011 - $58,383) to the Statement of Comprehensive Loss.
(2) The additions for leased equipment relate to items acquired under a finance lease. Refer to Note 9 for further details.

2011

During 2011, a number of assets were sold for total proceeds of $6,200 resulting in a loss on disposal of assets in the amount of $5,026. Of the total proceeds, $5,700 was on offset against certain receivables owed from a former President. In addition, a number of assets were disposed of for $nil proceeds due to obsolescence resulting in a loss on disposal of assets in the amount of $25,695. The total loss of $30,721 was recorded to the Statement of Comprehensive Loss.

During 2011, the Company acquired land and buildings from related parties in the amount of $426,400.

8. OTHER LIABILITIES

Other liabilities included in trade payables and other liabilities include the liability portion of the flow-through shares issued. The following shows the liability portion of flow-through shares issuances:

	Issued in October and November, 2010 $
Balance at October 1, 2010	**-**
Liability incurred on flow-through shares issued	85,909
Settlement of flow-through share liability on incurring expenditures	(50,207)
Balance at September 30, 2011	35,702
Liability incurred on flow-through shares issued	-
Settlement of flow-through share liability on incurring expenditures	(35,702)
Balance at September 30, 2012	**-**

Other liabilities arise on the issuance of flow-through shares when the price of each flow-through share exceeds the price of other non flow-through common shares issued at the same time.

In October and November 2010, the Company closed two private placements which included the issue of 6,487,147 flow-through shares for proceeds of $1,224,182. The flow-through shares were issued at a premium ranging from of $0.005 and $0.01 per share.

As at September 30, 2012, the Company had fulfilled its commitment to incur exploration expenditures in relation to these flow-through share financings.

In July 2012, the Company closed a private placement which included the issue of 7,030,700 flow-through units at $0.12 per unit for approximately gross flow-through proceeds of $843,600. Each unit consisted of one flow-through common share and one-half of one warrant, with each whole warrant entitling the holder to purchase one additional common share at $0.25 exercisable for two years. No premium was received for these shares.

As at September 30, 2012, the Company had not renounced this flow-through to the private placement subscribers and had not yet incurred $843,000 in qualifying expenditures. The Company must incur the qualifying expenditures by December 31, 2013 if renounced under the Look-back Rule or July 2014 if renounced under the General Rule.

If the Company does not spend these funds in compliance with the Government of Canada flow-through regulations, it may be subject to indemnification or other claims by the subscribers.

9. FINANCE LEASES

In November 2011 the Company entered into two lease agreements with Caterpillar Finance for the lease of equipment to be used in its exploration operations. The carrying value of the leased equipment is $303,567 at September 30, 2012, while the carrying value of the remaining lease obligation is $175,684 at September 30, 2012. The differences between these two amounts relates to down payments made on inception of the leases.

	September 30, 2012 ($)	September 30, 2011 ($)	October 1, 2010 ($)
Finance lease obligation	175,684	-	-
Less current portion	(91,356)	-	-
	84,328	**-**	**-**

9. FINANCE LEASES (Continued)

Future lease payments are due as follows:

	Minimum lease payments ($)	Interest ($)	Carrying Value ($)
Not later than one year	103,282	(18,954)	84,328
Later than one year and not later than five years	103,282	(11,926)	91,356
Later than five years	-	-	-
	206,564	**(30,880)**	**175,684**

10. LONG-TERM DEBT

Payable in annual principal payments of $20,000, commencing on August 30, 2008, plus interest at the Royal Bank's prime rate, collateralized by a charge on land and building. As at the date of the financial statements, there has been no settlement of the mortgage. For the year ended September 30, 2012 accrued interest was not recorded due to its nominal value.

	September 30, 2012 ($)	September 30, 2011 ($)	October 1, 2010 ($)
Principal and accrued interest beginning balance	77,464	76,507	75,828
Accrued interest for the year	-	957	679
Principal and accrued interest ending balance	77,464	77,464	76,507
Less: current portion	**(77,464)**	**(77,464)**	**(76,507)**
	-	**-**	**-**

11. RELATED PARTY BALANCES AND TRANSACTIONS

The Company's related party transactions consist of transactions with directors and officers as follows:

Related party	Nature of transactions
EMC Holdings Inc., officer of the company	Management services
GamX Management Inc., director and vice-president of exploration	Management and geological services

11. RELATED PARTY BALANCES AND TRANSACTIONS (Continued)

Transactions and balances with related and former related parties are as summarized below:

	2012 ($)	2011 ($)
Goods or services rendered		
Included in exploration and evaluation assets:		
	159,700	526,470
Included in administrative expenses:		
Consulting and management fees	164,186	96,786
Interest	-	8,976
Rent	-	9,000
	164,186	114,762

These transactions are measured at approximate fair values, being the price agreed to between the parties.

Related party balances are as follows:

	September 30, 2012 ($)	September 30, 2011 ($)	October 1, 2010 ($)
Receivables			
Amounts due to the Company by the former President (1)	-	31,521	-
Trade payable and other liabilities			
Amounts outstanding to companies with common officers and directors and former directors	(60,828)	(60,074)	(165,572)

(1) During the year ended September 30, 2011, included in receivables is $31,521 relating to prepaid equipment rent owed by a company with a former common Director. This amount has been written off during 2012.

Key management personnel compensation comprised:

	2012 ($)	2011 ($)
Salaries and benefits	459,924	356,096
Share-based payments	240,620	153,540
	700,544	509,636

Key management personnel include the chief executive officer, the chief financial officer and vice president of exploration and were not paid post-employment benefits, termination benefits or other long-term benefits during the years ended September 30, 2012 and 2011.

12. SHARE CAPITAL

i) Authorized Share Capital

Authorized share capital comprised an unlimited number of common shares without par value. All issued shares are fully paid.

ii) Issued Share Capital

2012

On July 12, 2012, pursuant to a brokered private placement, the Company issued 7,030,700 units at $0.12 per unit for total gross proceeds of $843,684. Each unit consisted of one flow-through common share and one-half non-transferrable share purchase warrant, with each full warrant entitling the holder to purchase one additional common share at an exercise price of $0.25 per share until July 12, 2014. The fair value of the share purchase warrants, estimated to be $93,874, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following weighted average assumptions: Share price volatility – 77%; Expected term – 2 years; Risk-free rate of return – 1.00% and Expected dividend yield – 0%.

The Company incurred share issue costs totaling $107,567, which included finders' fees of $59,058, corporate finance fees of $24,100, legal and filing fees of $24,409 and the issue of 492,149 agent's warrants with each warrant entitling the holder to purchase one common share at an exercise price of $0.11 per share until July 12, 2014. The fair value of the agent's warrants, estimated to be $26,384, was recorded as a reduction to share capital as share issue costs and credited to contributed surplus. The fair value of the agent's options was estimated using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 77%; Expected term – 2 years; Risk-free rate of return – 1.00% and Expected dividend yield – 0%.

On November 1, 2011 the Company issued 40,000 common shares valued at $9,600 pursuant to a mineral option agreement entered into with Rio Minerals. The shares were valued at the closing price of $0.24 per share on the date of issuance.

On January 20, 2012 the Company issued 2,400,000 common shares valued at $600,000 pursuant to the mineral property option agreement entered into with Candorado Operating Company. The shares were valued at the closing price of $0.25 per share on the date of issuance. In addition there were 2,000,000 warrants issued with a term of two years having an exercise price of $0.40. The fair value attributed to these equity instruments of $144,000 was recorded to contributed surplus and acquisition costs in mineral properties (Note 6). The fair value of the warrants was determined using the Black-Scholes option pricing model using the following weighted average assumptions: Share price volatility –73%; Expected term – 2.0 years; Risk-free rate of return – 1.56% and Expected dividend yield – 0%.

12. SHARE CAPITAL (Continued)

2011

i. October, 2010

On October 4, 2010, pursuant to a brokered private placement, the Company issued 2,467,750 flow-through units at $0.16 per unit and 3,346,160 non-flow through units at $0.15 per unit for total gross proceeds of $896,764. Each flow-through unit consisted of one flow-through common share and one non-transferrable share purchase warrant entitling the holder to purchase one additional common share at an exercise price of $0.25 until October 1, 2011. Each non-flow through unit consisted of one common share and one non-transferrable share purchase warrant entitling the holder to purchase one additional common share at an exercise price of $0.25 until April 1, 2012. The fair value of the share purchase warrants, estimated to be $129,085, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following weighted average assumptions: Share price volatility – 61%; Expected term – 1.3 years; Risk-free rate of return – 1.43% and Expected dividend yield – 0%.

The Company incurred share issue costs totaling $124,521, including finders' fees of $71,741, corporate finance fees of $20,000, legal and filing fees of $17,434 and issued 465,112 agent's warrants entitling the holder to purchase one common share at an exercise price of $0.25 until April 1, 2012. The fair value of the agent's warrants, estimated to be $15,346, was recorded as a reduction to share capital as share issue costs and credited to contributed surplus. The fair value of the agent's options was estimated using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 65%; Expected term – 1.5 years; Risk-free rate of return – 1.43% and Expected dividend yield – 0%.

ii. November 2010

On November 10, 2010, pursuant to a brokered private placement, the Company issued 2,270,000 flow-through units at $0.16 per unit and 1,866,906 non flow-through units at $0.15 per unit for total gross proceeds of $643,236. Each flow through unit consisted of one flow-through common share and one non-transferrable non-flow through share purchase warrant entitling the holder to purchase one additional common share at an exercise price of $0.25 until November 10, 2011. Each non flow-through unit consisted of one common share and one non-transferrable share purchase warrant entitling the holder to purchase one additional common share at an exercise price of $0.25 until May 10, 2012. The fair value of the share purchase warrants, estimated to be $184,912, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following weighted average assumptions: Share price volatility – 63%; Expected term – 1.2 years; Risk-free rate of return – 1.70% and Expected dividend yield – 0%.

The Company incurred share issue costs totaling $118,558, including finders' fees of $51,459, agent commissions of $35,000, filing fees of $7,973 and issued 330,952 agent's warrants entitling the holder to purchase one common share at an exercise price of $0.25 until May 10, 2012. The fair value of the agent's warrants, estimated to be $24,126, was recorded as a reduction to share capital as share issue costs and credited to contributed surplus. The fair value of the agent's options was estimated using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 65%; Expected term – 1.5 years; Risk-free rate of return – 1.70% and Expected dividend yield – 0%.

12. SHARE CAPITAL (Continued)

On November 30, 2010, pursuant to a brokered private placement, the Company issued 6,250,000 flow-through units at $0.28 per unit for total gross proceeds of $1,750,000. Each flow-through unit consisted of one flow-through common share and one-half non-transferrable non-flow through share purchase warrant entitling the holder, in exchange for one share purchase warrant, to purchase one additional common share at an exercise price of $0.50 until November 30, 2012. If the closing price of the common shares of the Company on the TSX Venture Exchange is greater than $0.70 for at least 20 consecutive trading days in the period from March 31, 2011 to November 30, 2012, the Company may accelerate the expiry date of the warrants by giving notice to the warrant holders and in such case the warrants will expire on the 30th day after the date on which such notice is given. The fair value of the share purchase warrants, estimated to be $160,379, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following: Share price volatility – 72%; Expected term – 2 years; Risk-free rate of return – 1.69% and Expected dividend yield – 0%.

The Company incurred share issue costs totaling $176,573, including finders' fees of $102,000, legal and filing fees of $26,725 and issued 485,714 agent option units entitling the holder to purchase one unit at an exercise price of $0.28 until November 30, 2012. Each unit is comprised of one common share and one-half non-transferrable share purchase warrant entitling the holder, in exchange for one share purchase warrant, to purchase one additional common share at an exercise price of $0.50 until November 30, 2012. The fair value of the agent option units, estimated to be $47,848, was recorded as a reduction to share capital as share issue costs and credited to contributed surplus. The fair value of the agent's options was estimated using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 72%; Expected term – 2 years; Risk-free rate of return – 1.69% and Expected dividend yield – 0%.

iii. June, 2011

On June 1, 2011 the Company issued 123,000 common shares pursuant to a loan agreement with an unrelated party. This loan was repaid during the year. The Company issued shares in lieu of interest otherwise payable valued and recorded at the trading price on issuance date of $0.34 per share. On June 1, 2011 the Company also issued 66,486 common shares pursuant to a loan agreement with a former officer and director of the Company. This loan was repaid during the year. The Company issued shares in lieu of interest otherwise payable valued and recorded at the trading price on issuance date of $0.28 per share. The fair value of the shares on the date of grant of $60,436, included $50,796 recorded as interest expense and $9,640 recorded as stock-based compensation to the former officer and director of the Company, being the excess of the agreed interest on the loan and the fair value of the shares issued.

On June 2, 2011, pursuant to a non-brokered private placement, the Company issued 4,000,000 units at $0.45 per unit for total gross proceeds of $1,800,000. Each unit consisted of one share and one-half non transferrable share purchase warrant entitling the holder, in exchange for one half share purchase warrant, to purchase one additional common share at an exercise price of $0.65 until June 2, 2013. The fair value of the share purchase warrants, estimated to be $133,301, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 64%; Expected term – 2 years; Risk-free rate of return – 1.56% and Expected dividend yield – 0%. The Company incurred share issued costs totaling $9,750 on filing fees.

12. SHARE CAPITAL (Continued)

On June 22, 2011, pursuant to a non-brokered private placement, the Company issued 1,351,351 units at $0.37 per unit for total gross proceeds of $500,000. Each unit consisted of one share and one non-transferrable share purchase warrant entitling the holder, in exchange for one share purchase warrant, to purchase one additional common share at an exercise price of $0.45 until June 22, 2012, and $0.60 until June 22, 2013. The fair value of the share purchase warrants, estimated to be $67,267, was credited to contributed surplus. The fair value was determined using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 65%; Expected term – 2 years; Risk-free rate of return – 1.56% and Expected dividend yield – 0%. The Company incurred $3,600 in legal and filing fees.

On June 27, 2011 the Company issued 175,000 common shares valued at $56,000 pursuant to a mineral property Option Agreement for the Sainte Sabine property. The shares were valued and recorded at the closing price of $0.32 per share on the date of issuance.

iii) Shares issued on exercise of warrants, agent options, and stock options

2012

During the year ended September 30, 2012, 4,414,093 common shares were issued on the exercise of warrants for gross proceeds of $950,416. The amount of $160,150 was transferred from contributed surplus to share capital on exercise.

During the year ended September 30, 2012, 170,000 common shares were issued on the exercise of share purchase options for gross proceeds of $30,400. The amount of $23,153 was transferred from contributed surplus to share capital on exercise.

2011

During the year ended September 30, 2011, 30,700,934 common shares were issued on the exercise of warrants, agent options and stock options for gross proceeds of $6,751,957. The amount of $1,506,913 was transferred from contributed surplus to share capital on exercise.

iv) Share Purchase Option Compensation Plan

The Company has a share purchase option plan approved by the Company's shareholders that allows it to grant share purchase options, subject to regulatory terms and approval, to its officers, directors, and employees. The share purchase option plan (the "2011 Rolling Option Plan") is based on the maximum number of eligible shares equaling a rolling percentage of 7.5% of the Company's outstanding common shares, and may not exceed 5% to any individual, calculated from time to time. Pursuant to the 2011 Rolling Option Plan, if outstanding share purchase options are exercised or expire, and/or the number of issued and outstanding common shares of the Company increases, then the share purchase options available to grant under the plan increases proportionately. The exercise price of each share purchase option is set by the Board of Directors at the time of grant but cannot be less than the market price (less permissible discounts).

12. SHARE CAPITAL (Continued)

Under the Plan, if an optionee ceases to be a director, officer or employee for any reason other than death, this option shall terminate as specified by the Board and all rights to purchase common shares under such option shall cease and expire and be of no further force or effect. Options have a maximum term of five years and depending on who the optionee is and whether the optionee resigned or is terminated, will terminate on the effective date of resignation or termination or 18 months following termination, except in the case of death, in which case they terminate one year after death. Unless otherwise noted vesting of options is made at the time of granting of the options at the discretion of the Board of Directors. Vested options are exercisable at any time.

2012

During the year ended September 30, 2012, the Company granted 2,325,000 share purchase options. Based on the estimated fair value of the share purchase options at their grant dates, the Company recorded a stock-based compensation expense of $229,013 for these options in the statement of comprehensive loss for the year. The share purchase options were granted to directors, officers and employees, vested immediately and are exercisable for five years at $0.25 for a period of five years. The fair value was determined using the Black-Scholes option pricing model using the following assumptions: Share price volatility – 74%; Expected term – 5.0 years; Risk-free rate of return – 1.28% and Expected dividend yield – 0%.

The Company also recognized $145,900 stock-based compensation to an officer of the Company on unvested options granted during the year ended September 30, 2011 in connection with the three year management service contract.

2011

During the year ended September 30, 2011, the Company granted 450,000 share purchase options to employees, which vested immediately, and are exercisable for five years at prices of $0.275 to $0.42 per share. Based on the estimated fair value of the options at their grant dates, the Company recorded stock-based compensation expense of $118,277 for these options in the statement of comprehensive loss.

Also during the year ended September 30, 2011, in July 2011, 1,850,000 options were granted under a management service contract to an officer of the Company with the following conditions:

- 600,000 options with exercise price of $0.25 per share, expiring August 2016 and vesting when the share price exceeds $0.75; and
- 1,250,000 options with exercise price of $0.25 per share, expiring August 2016 and vesting when the share price exceeds $1.00

The fair value of these unvested options granted with market vesting conditions were estimated using a binomial option price model. The total fair value of the unvested options is $437,650 which will be amortized over the service period of 3 years, the life of the management contract. The stock based compensation for this period was $36,471 and is included in the $154,748 stock-based compensation figure.

The weighted average assumptions used in the binomial model were as follows: Risk-free rate of return – 2.33%; Share price volatility – 89%; Time period intervals (years) – 5/8 and Expected dividend yield – 0%.

12. SHARE CAPITAL (Continued)

The following is a summary of changes in share purchase options from October 1, 2010 to September 30, 2012:

	Number of options	Weighted Average
Outstanding at October 1, 2010	**6,068,400**	**$0.19**
Granted	2,300,000	$0.28
Expired/Cancelled	(460,000)	($0.19)
Outstanding at September 30, 2011	**7,908,400**	**$0.21**
Granted	2,325,000	$0.25
Exercised	(170,000)	($0.31)
Expired	(1,544,000)	($0.17)
Outstanding at September 30, 2012	**8,519,400**	**$0.23**

As at September 30, 2012 the following share purchase options were outstanding:

Number of Options	Exercise Price	Expiry Date
120,000	$0.17	May 6, 2013
430,000	$0.17	March 23, 2014
3,344,400	$0.20	September 3, 2015
50,000	$0.28	January 4, 2016
400,000	$0.42	February 24, 2016
1,850,000	$0.25	August 1, 2016
2,325,000	$0.25	December 28, 2016
8,519,400		

As at September 30, 2012, 6,669,400 stock options are fully vested and exercisable and 1,850,000 stock options are unvested. The unvested options have market vesting conditions contingent on reaching certain share price levels of the Company. The weighted average life remaining of the outstanding options is 3.2 years.

12. SHARE CAPITAL (Continued)

v) Share Purchase Warrants

The following is a summary of changes in share purchase warrants from October 1, 2010 to September 30, 2012:

	Number	Weighted Average Exercise Price
Outstanding at October 1, 2010	**28,799,600**	**$0.17**
Granted	16,670,024	$0.36
Exercised	(28,385,929)	($0.17)
Expired/Cancelled	(692,906)	($0.31)
Outstanding at September 30, 2011	**16,390,789**	**$0.35**
Granted	5,515,350	$0.30
Exercised	(4,414,093)	($0.25)
Expired	(5,500,345)	($0.21)
Outstanding at September 30, 2012	**11,991,701**	**$0.43**

During the year ended September 30, 2012 the Company issued 5,515,350 warrants as part of unit offerings as described in detail in Note 12 under issued share capital.

During the year ended September 30, 2011 the Company issued 16,670,024 warrants as part of unit offerings and as described in detail in Note 12 under issued share capital.

At September 30, 2012, the Company has outstanding share purchase warrants entitling the holders to acquire Common shares as follows:

Number of Warrants	Exercise Price	Expiry Date	
3,125,000	$0.50	November 30, 2012	(1)
2,000,000	$0.65	June 2, 2013	
1,351,351	$0.45	June 22, 2013	
2,000,000	$0.40	January 20, 2014	
3,515,350	$0.25	July 12, 2014	
11,991,701			

(1) Expired subsequent to year end.

12. SHARE CAPITAL (Continued)

vi) Agent warrants

The following is a summary of changes in agent warrants from October 1, 2010 to September 30, 2012:

	Number of warrants	Weighted Average Exercise Price
Outstanding at October 1, 2010	**1,852,464**	**$0.15**
Granted	1,281,778	$0.21
Exercised	(1,855,005)	($0.13)
Outstanding at September 30, 2011	**1,279,237**	**$0.26**
Granted	492,149	$0.11
Expired	(793,523)	($0.25)
Outstanding at September 30, 2012	**977,863**	**$0.19**

During the year ended September 30, 2012 the Company issued 492,149 agent warrants as part of unit offerings as described in detail in Note 12 under issued share capital

During the year ended September 30, 2011 the Company issued 1,281,778 agent warrants as part of unit offerings and as described in detail in Note 12 under issued share capital.

At September 30, 2012, the Company has outstanding agent warrants entitling the holders to acquire Common shares as follows:

Number of Warrants	Exercise Price	Expiry Date	
485,714	$0.28	November 30, 2012	(1)
492,149	$0.11	July 12, 2014	
977,863			

(1) Included in the above table, 485,714 agent's option units include share purchase warrants of 242,857 which were not valued as this contingent equity instrument is based on a contingent event which could not be practicably determined. These agent options and share purchase warrants expired subsequent to year end.

vii) Nature and purpose of equity and reserves

The reserves recorded in equity on the Company's Statement of Financial Position include: Contributed Surplus and Accumulated Deficit.

- Contributed surplus is used to recognize the value of stock options granted and share purchase warrants issued prior to their exercise.
- Accumulated Deficit is used to record the Company's change in deficit from earnings from year to year.

13. CAPITAL MANAGEMENT

The Company manages its capital to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern through the optimization of its capital structure. The capital consists of shareholder's equity comprising: issued capital; share purchase warrants; contributed surplus and accumulated deficit. The basis for the Company's capital structure is dependent on the Company's exploration programs.

There were no changes in the Company's approach to capital management during the current year and the Company is not subject to externally imposed capital requirements.

14. CONTINGENCIES AND COMMITMENTS

2012

From time to time, certain claims, suits, and complaints may arise in the ordinary course of operations against the Company. In the opinion of management, any provisions related to such claims, if any, will be accrued when the claims meet the recognition criteria for contingent liabilities. Management is not aware of any material contingent liabilities which require recording in the financial statements for the year ended September 30, 2012 or 2011.

2011

The Company received a claim against the Company for unpaid amounts in connection with a financing transaction. The management of the Company is of the opinion that the claim was without merit as the claimed amount is not supported by a written contract or agreement. No provision has been made for this claim in the financial statements. The likelihood an amount of any loss was not determinable at that time.

During the year ended September 30, 2011, the Company entered into a management service contract agreement with an officer of the company with the following terms:

- Granting of 600,000 options with exercise price of $0.25, expiring August 2016 and vest when the share price exceeds $0.75
- Granting of 1,250,000 options with exercise price of $0.25, expiring August 2016 and vest when the share price exceeds $1.00
- Remuneration set at $120,000 for the first year of service with $10,000 paid in advance equally each month,
- Parties agree that the compensation to be paid in the second and third year will be agreed to no later than one month in advance of each of the corresponding terms and that in no event will the compensation be less favorable than the compensation for the first year,
- The Company may terminate the agreement with a written notice on June 1, 2012. Failing a written notice on that date, the agreement will remain binding on the Company for a full three year term; and
- The agreement is in effect from July 1, 2011 to August 1, 2014.

As at September 30, 2012, this management service contract is still in effect.

15. INCOME TAX

	2012	2011
	($)	($)
Current tax expense	**-**	-
Deferred tax expense (recovery)	**(127,000)**	702,000
	(127,000)	702,000

Taxation in the company's operational jurisdiction is calculated at the rate prevailing in its respective jurisdiction.

The difference between the tax expense for the year and expected income taxes based on the statutory tax rate arises as follows:

	2012	2011 (Note 19)
	($)	**($)**
Loss before income taxes	**(2,689,136)**	(979,067)
Statutory rates	**25.38%**	27%
Tax charge/(recovery) based on statutory rates	**(683,000)**	(264,000)
Non-deductible expenses	**97,830**	46,247
Share issuance costs	**(27,000)**	(86,000)
Impact of under provision in previous year	**143,000**	-
Impact of flow-through share renunciations	**179,000**	702,000
Other	**58,000**	-
Effect of reduction in statutory rates	**9,000**	16,000
Changes in unrecognized deferred tax assets	**97,000**	288,000
Deferred tax expense/(recovery)	**(127,170)**	702,247

As at September 30, 2012, the Company has available non-capital losses for Canadian tax purposes of approximately $6.6 million which may be carried forward and applied against future taxable income when earned. If not utilized, the non-capital losses expire approximately as follows: 2014: $266,000; 2015: $210,000; 2026: $319,000; 2027: $714,000; 2028: $1,021,000; 2029: $834,000; 2030: $1,089,000, 2031: $1,114,000 and 2032: $1,076,000.

15. INCOME TAX (Continued)

The nature and tax effect of the temporary differences giving rise to deferred tax assets and liabilities are summarized as follows:

	September 30 2012	September 30 2011 (Note 19)	October 1 2010 (Note 19)
	($)	**($)**	**($)**
Non-capital losses	**1,662,000**	1,392,000	1,114,000
Capital losses	**5,000**	5,000	5,000
Property and equipment	**13,000**	101,000	79,000
Mineral properties and deferred exploration expenditures	**(4,558,000)**	(4,685,000)	(3,983,000)
Un-deducted financing costs	**107,000**	144,000	156,000
Lease obligations	**(48,000)**	-	-
Unrecognized deferred tax asset	**(1,739,000)**	(1,642,000)	(1,354,000)
Net future income tax liability	**(4,558,000)**	(4,685,000)	(3,983,000)

16. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

During the years ended September 30, 2012 and 2011, no cash was paid for income taxes.

Non-cash transactions

During the year ended September 30, the following transactions, which did not result in cash flows, have been excluded from financing and investing activities:

	2012	**2011**
	($)	**($)**
Fair value of finder's and due diligence fees	26,384	87,320
Shares issued to purchase mineral properties	609,600	56,000
Warrants issued to purchase mineral properties	144,000	-
Shares issued for settlement of loan interest	-	50,796
Non-cash proceeds on disposal of property and equipment	-	5,700
	779,984	**199,816**

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

The Company is exposed to the following financial risks:

- Market Risk
- Credit Risk
- Liquidity Risk

In common with all other businesses, the Company is exposed to risks that arise from its use of financial instruments. This note describes the Company's objectives, policies and processes for managing those risks and the methods used to measure them. Further quantitative information in respect of these risks is presented throughout these financial statements.

General Objectives, Policies and Processes

The Board of Directors has overall responsibility for the determination of the Company's risk management objectives and policies and, whilst retaining ultimate responsibility for them, it has delegated the authority for designing and operating processes that ensure the effective implementation of the objectives and policies to the Company's finance function.
The overall objective of the Board is to set policies that seek to reduce risk as far as possible without unduly affecting the Company's competitiveness and flexibility. Further details regarding these policies are set out below.

a) Market Risk

Market risk is the risk that changes in market prices, such as foreign exchange rates, interest rates, commodity prices, and equity prices will affect the Company's income or the value of its holdings of financial instruments. The objective of market risk management is to manage and control market risk exposures within acceptable parameters, while optimizing the return. As at September 30, 2012, the Company is exposed to interest rate risk.

i. Interest risk

Interest risk is the risk that the future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has not entered into any derivative contracts to manage risk. The Company's policy as it relates to its cash balances is to invest excess cash in a reputable Canadian chartered bank.

As of September 30, 2012, the Company's exposure to interest rate risk is as follows:

- Cash and cash equivalents - Variable interest rate
- Current portion of long-term debt - Variable interest rate at prime rate

A change in interest rates of 1% would not materially affect cash or the current portion of long-term debt.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

b) Credit Risk

Credit risk is the risk of financial loss to the Company if a customer or a counterparty to a financial instrument fails to meet its contractual obligations. The Company's exposure to credit risk is on its cash and cash equivalents and receivables.

Cash consists of cash bank balances and short-term deposits with original maturity dates of ninety days or less. Management believes the risk of loss to be remote.

Amounts receivable mainly consists of input tax credit receivables. Due to the nature of the assets, management believes that the credit risk concentration with respect to receivables is remote and no collateral is held as security for these balances. As at September 30, 2012 the Company had a trade and other receivables balance of $209,907 (September 30, 2011 - $212,111). None of the balances are believed to be impaired.

c) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they become due. The Company's policy is to ensure that it will always have sufficient cash to allow it to meet its liabilities when they become due, under both normal and stressed conditions, without incurring unacceptable losses or risking damage to the Company's reputation. The key to success in managing liquidity is the degree of certainty in the cash flow projections. If future cash flows are fairly uncertain, the liquidity risk increases.

The Company ensures that there is sufficient capital in order to meet short-term business requirements after taking into account the Company's holdings of cash and cash equivalents. As at September 30, 2012, the Company had cash and cash equivalents of $638,646 and current liabilities of $633,400.

The Company anticipates that the current funds are not sufficient to support its corporate and administrative obligations on a continuous basis or to satisfy its current flow-through commitment of approximately $843,000. Management is evaluating other alternatives to secure financing including additional equity offerings. However, there is no assurance that these initiatives will be successful. The amount and timing of additional funding will be impacted by among other things, the strength of the capital markets.

Determination of Fair value

Fair values have been determined for measurement and/or disclosure purposes based on the following methods. When applicable, further information about the assumptions made in determining fair values is disclosed in the notes specific to that asset or liability.

The Statement of Financial Position carrying values for: cash; receivables; finance leases; mortgage payable; trade payables and other liabilities and amounts due to related parties, approximates fair value due to their short-term nature. Due to the use of subjective judgments and uncertainties in the determination of fair values these values should not be interpreted as being realizable in an immediate settlement of the financial instruments.

17. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

Fair Value Hierarchy

Financial instruments that are measured subsequent to initial recognition at fair value are grouped in Levels 1 to 3 based on the degree to which the fair value is observable:

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 does not have any level 1, 2 or 3 financial instruments as of September 30, 2012.

18. SUBSEQUENT EVENT

Certain warrants expired unexercised. See Note 12

19. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

The Company's financial statements for the year-ending September 30, 2012 are the first annual financial statements prepared in accordance with IFRS. IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1"), requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was October 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be September 30, 2012. Therefore, the financial statements for the year-ended September 30, 2012, the comparative information presented in these financial statements for the year-ended September 30, 2011 and the opening IFRS statement of financial position at October 1, 2010 are prepared in accordance with IFRS standards effective at the reporting date. However, IFRS 1 also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adopters. Prior to transition to IFRS, the Company prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("pre-changeover Canadian GAAP").

In preparing the Company's opening IFRS financial statements, the Company has adjusted amounts reported previously in the financial statements prepared in accordance with pre-changeover Canadian GAAP.

An explanation of how the transition from pre-changeover Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following notes and tables:

19. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

(a) IFRS 1, *First-time adoption of International Financial Reporting Standards*

IFRS 1, which governs the first-time adoption of IFRS, generally requires accounting policies to be applied retrospectively to determine the opening statement of financial position on the transition date of October 1, 2010, and allows certain exemptions on the transition to IFRS.

(i) The exemptions the Company has chosen to apply and that are considered significant to the Company include decisions to:

- Continue to measure property, plant and equipment at its historical amortized cost; and
- Not apply IFRS 2, *Share-based Payment*, to equity instruments that were fully vested or settled before October 1, 2010.

(ii) The mandatory exemptions as required are as follows:

- Estimates. The estimates previously made by the Company under pre-changeover Canadian GAAP were not revised for the application of IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result, the Company has not used hindsight to revise estimates.

(b) Reconciliations

IFRS 1 requires a company to reconcile equity, comprehensive income and cash flows for comparative periods. The Company's adoption did not have a significant impact on equity, net loss and comprehensive loss, and operating, investing or financing cash flows in the prior periods. As a result, there were no adjustments to the Statement of Cash Flows. In preparing these financial statements, the Company has reflected the result of transition in the tables below.

19. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

The October 1, 2010 Pre-changeover Canadian GAAP Statement of Financial Position has been reconciled to IFRS as follows:

	Canadian GAAP October 1, 2010	Sub Note	Effect of transition to IFRS	IFRS October 1, 2010
	($)		($)	($)
ASSETS				
Current assets	48,500		-	48,500
Non-current assets	20,449,801		-	20,449,801
TOTAL ASSETS	**20,498,301**		**-**	**20,498,301**
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Current liabilities	846,612		-	846,612
Non-current liabilities	3,983,389	**(i)**	(176)	3,983,213
Total liabilities	4,830,001		(176)	4,829,825
SHAREHOLDERS' EQUITY				
Share capital	16,774,393	**(i)**	4,414,310	21,188,703
Contributed surplus	11,988,582		-	11,988,582
Accumulated deficit	(13,094,675)	**(i)**	(4,414,314)	(17,508,809)
Total shareholders' equity	15,668,300		176	15,668,476
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**20,498,301**		**-**	**20,498,301**

19. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

The September 30, 2011 Canadian GAAP Statement of Financial Position has been reconciled to IFRS as follows:

	Canadian GAAP September 30, 2011	Sub Note	Effect of transition to IFRS	IFRS September 30, 2011
	($)		**($)**	**($)**
ASSETS				
Current assets	5,318,572		-	5,318,572
Non-current assets	24,879,958		-	24,879,958
TOTAL ASSETS	**30,198,530**		**-**	**30,198,530**
LIABILITIES AND SHAREHOLDERS' EQUITY				
LIABILITIES				
Current liabilities	764,688	**(i)**	36,576	801,264
Non-current liabilities	4,867,860	**(i)**	(182,400)	4,685,460
Total liabilities	5,632,548		(145,824)	5,486,724
SHAREHOLDERS' EQUITY				
Share capital	27,240,370	**(i)**	5,262,878	32,503,248
Contributed surplus	11,398,681		-	11,398,681
Accumulated deficit	(14,073,069)	**(i)**	(5,117,054)	(19,190,123)
Total shareholders' equity	24,565,982		145,824	24,711,806
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY	**30,198,530**		**-**	**30,198,530**

19. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (Continued)

The Canadian GAAP Statement of Comprehensive Loss for the year ended September 30, 2011 has been reconciled to IFRS as follows:

	Canadian GAAP September 30, 2011 ($)	Sub Note	Effect of transition to IFRS ($)	IFRS September 30, 2011 ($)
Loss before income tax	(979,067)		-	(979,067)
Deferred tax expense	-	(i)	(702,247)	(702,247)
Comprehensive loss for the year	**(978,067)**		**(702,247)**	**(1,681,314)**
Loss per share, basic and diluted	**(0.01)**			**(0.01)**

Note to the IFRS reconciliations:

i) Under pre-change-over Canadian GAAP, the entire proceeds from the issuance of flow-through shares were recognized in equity less the tax effects of renunciation. Under IFRS, on issue of flow-through shares, the Company bifurcates the flow-through shares into: 1) 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, 2) share capital.

Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax reduction renounced to the shareholders. The premium is recognized within the other liabilities and the related deferred tax is recognized as a tax provision.

As a result, for issuance of flow-through shares for which expenditures have been incurred at the date of transition of October 1, 2010, share capital was increased by $4,414,310, deferred tax liabilities decreased by $176 and deficit was increased by $4,414,134.

The impact on deficit for the year ended September 30, 2011 was an increase of $5,117,054 with a corresponding increase in share capital of $5,262,878, decrease in deferred tax liabilities of $182,400 and increase in other liabilities of $36,576 representing the premium on flow-through shares issued but expenditures not incurred by the end of the reporting period.

For the year ended September 30, 2011, the total comprehensive loss was increased by $702,247, which represents the deferred tax provision in connection with change in the deferred tax liability on renunciation of flow-through share issuances for the period.