

**DAKAR RESOURCE CORP.**

**CONSOLIDATED FINANCIAL STATEMENTS**

**(Expressed in Canadian Dollars)**

**December 31, 2013**

## INDEPENDENT AUDITORS' REPORT

To the Shareholders of  
Dakar Resource Corp.

We have audited the accompanying consolidated financial statements of Dakar Resource Corp., which comprise the consolidated statements of financial position as at December 31, 2013 and September 30, 2012, and the consolidated statements of loss and comprehensive loss, changes in equity and cash flows for the fifteen month period ended December 31, 2013 and year ended September 30, 2012, and a summary of significant accounting policies and other explanatory information.

### *Management's Responsibility for the Consolidated Financial Statements*

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

### *Auditors' Responsibility*

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

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

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



***Opinion***

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of Dakar Resource Corp. as at December 31, 2013 and September 30, 2012 and its financial performance and its cash flows for the for the fifteen month period ended December 31, 2013 and year ended September 30, 2012 in accordance with International Financial Reporting Standards.

***Emphasis of Matter***

Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which describes conditions and matters that indicate the existence of a material uncertainty that may cast significant doubt about Dakar Resource Corp.'s ability to continue as a going concern.

**“DAVIDSON & COMPANY LLP”**

Vancouver, Canada

Chartered Accountants

January 29, 2014

**DAKAR RESOURCE CORP.**  
**Consolidated Statements of Financial Position**

(Expressed in Canadian dollars)

As at

|                                          | Note | December 31, 2013 | September 30, 2012 |
|------------------------------------------|------|-------------------|--------------------|
| <b>Assets</b>                            |      |                   |                    |
| <b>Current</b>                           |      |                   |                    |
| Cash                                     |      | \$ 354,520        | \$ 843,478         |
| Receivables                              | 6    | 37,862            | 25,310             |
| Prepaid expenses                         |      | 1,365             | 1,699              |
| <b>Total current assets</b>              |      | <b>393,747</b>    | <b>870,487</b>     |
| <b>Non-current</b>                       |      |                   |                    |
| Deferred cost                            | 7    | 60,866            | -                  |
| Reclamation Bond                         | 7    | -                 | 5,007              |
| Exploration and evaluation asset         | 7    | -                 | 26,250             |
| <b>Total non-current assets</b>          |      | <b>60,866</b>     | <b>31,257</b>      |
| <b>Total assets</b>                      |      | <b>\$ 454,613</b> | <b>\$ 901,744</b>  |
| <b>Liabilities</b>                       |      |                   |                    |
| <b>Current</b>                           |      |                   |                    |
| Accounts payable and accrued liabilities | 8    | \$ 95,129         | \$ 195,693         |
| <b>Equity</b>                            |      |                   |                    |
| Share capital                            | 9    | 1,133,553         | 1,133,553          |
| Equity reserves                          | 9    | 258,255           | 258,255            |
| Deficit                                  |      | (1,032,324)       | (685,757)          |
| <b>Total equity</b>                      |      | <b>359,484</b>    | <b>706,051</b>     |
| <b>Total liabilities and equity</b>      |      | <b>\$ 454,613</b> | <b>\$ 901,744</b>  |

Nature of operations and going concern (Note 1)

Subsequent event (Note 15)

Approved by the Board:

**"Allen Wilson"**

Director

**"Steve Kenwood"**

Director

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

**DAKAR RESOURCE CORP.**  
**Consolidated Statements of Loss and Comprehensive Loss**  
(Expressed in Canadian dollars)

|                                                                 |      | 15 months ended     | 12 months ended     |
|-----------------------------------------------------------------|------|---------------------|---------------------|
|                                                                 | Note | December 31, 2013   | September 30, 2012  |
| <b>Expenses</b>                                                 |      |                     |                     |
| Accounting and professional fees                                |      | \$ 75,312           | \$ 62,434           |
| Consulting fee                                                  |      | 97,953              | 5,288               |
| Exploration (recoveries)/expenses                               | 7    | (103,635)           | 191,715             |
| General and administrative                                      |      | 23,963              | 1,359               |
| Investor Relations                                              |      | 14,000              | -                   |
| Rent                                                            |      | 19,150              | 6,250               |
| Share-based payments                                            | 9    | -                   | 106,653             |
| Transfer agent and filing fees                                  |      | 24,086              | 8,364               |
|                                                                 |      | (150,829)           | (382,063)           |
| Write-off of Proteus transaction                                | 7    | (166,345)           | -                   |
| Write-off of NAP Property                                       | 7    | (36,250)            | -                   |
| Interest income                                                 |      | 6,857               | 2,909               |
| <b>Loss and comprehensive loss for the period</b>               |      | <b>\$ (346,567)</b> | <b>\$ (379,154)</b> |
| <br><b>Basic and diluted loss per common share</b>              |      |                     |                     |
|                                                                 |      | \$ (0.02)           | \$ (0.03)           |
| <br><b>Weighted average number of common shares outstanding</b> |      |                     |                     |
|                                                                 |      | 15,225,000          | 13,240,342          |

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

**DAKAR RESOURCE CORP.**  
**Consolidated Statement of Changes in Equity**  
(Expressed in Canadian dollars)

|                                                                | <b>Number of<br/>shares</b> | <b>Share<br/>Capital</b> | <b>Equity<br/>Reserves</b> | <b>Deficit</b> | <b>Total<br/>Equity</b> |
|----------------------------------------------------------------|-----------------------------|--------------------------|----------------------------|----------------|-------------------------|
| <b>September 30, 2011</b>                                      | 12,125,000                  | \$ 613,973               | \$ 113,000                 | \$ (306,603)   | \$ 420,370              |
| Issue of common shares for cash                                | 3,000,000                   | 750,000                  | -                          | -              | 750,000                 |
| Share issuance cost                                            | -                           | (236,420)                | 38,602                     | -              | (197,818)               |
| Issue of common shares for exploration and<br>evaluation asset | 100,000                     | 6,000                    | -                          | -              | 6,000                   |
| Share-based payments                                           | -                           | -                        | 106,653                    | -              | 106,653                 |
| Loss for the year                                              | -                           | -                        | -                          | (379,154)      | (379,154)               |
| <b>September 30, 2012</b>                                      | 15,225,000                  | 1,133,553                | 258,255                    | (685,757)      | 706,051                 |
| Loss for the 15 month period                                   | -                           | -                        | -                          | (346,567)      | (346,567)               |
| <b>December 31, 2013</b>                                       | 15,225,000                  | \$ 1,133,553             | \$ 258,255                 | \$ (1,032,324) | \$ 359,484              |

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

**DAKAR RESOURCE CORP.**  
**Consolidated Statements of Cash Flows**  
(Expressed in Canadian dollars)

|                                                                            | 15 months ended<br>December 31, 2013 | 12 months ended<br>September 30, 2012 |
|----------------------------------------------------------------------------|--------------------------------------|---------------------------------------|
| <b>Cash flows from operating activities</b>                                |                                      |                                       |
| Loss for the period                                                        | \$ (346,567)                         | \$ (379,154)                          |
| Item not affecting cash                                                    |                                      |                                       |
| Share-based payments                                                       | -                                    | 106,653                               |
| Write-off of NAP Property                                                  | 36,250                               | -                                     |
| Changes in non-cash working capital items                                  |                                      |                                       |
| Increase in receivables                                                    | (12,552)                             | (24,258)                              |
| Decrease/(increase) in prepaid expenses                                    | 334                                  | (1,699)                               |
| (Decrease)/increase in accounts payable and accrued liabilities            | (100,564)                            | 169,786                               |
| <b>Net cash used in operating activities</b>                               | <b>(423,099)</b>                     | <b>(128,672)</b>                      |
| <b>Cash flows from investing activities</b>                                |                                      |                                       |
| Reclamation bond recovery                                                  | 5,007                                | -                                     |
| Deferred cost                                                              | (60,866)                             | -                                     |
| Acquisition of exploration and evaluation asset                            | (10,000)                             | (5,000)                               |
| <b>Net cash used in investing activities</b>                               | <b>(65,859)</b>                      | <b>(5,000)</b>                        |
| <b>Cash flows from financing activities</b>                                |                                      |                                       |
| Proceeds from issuance of common shares                                    | -                                    | 750,000                               |
| Share issuance cost                                                        | -                                    | (182,818)                             |
| <b>Net cash from (used in) financing activities</b>                        | <b>-</b>                             | <b>567,182</b>                        |
| <b>Net increase (decrease) in cash</b>                                     | <b>(488,958)</b>                     | <b>433,510</b>                        |
| Cash at beginning of period,                                               | 843,478                              | 409,968                               |
| <b>Cash at end of period,</b>                                              | <b>\$ 354,520</b>                    | <b>\$ 843,478</b>                     |
| Cash paid for interest                                                     | \$ -                                 | \$ -                                  |
| Cash paid for income taxes                                                 | -                                    | -                                     |
| Supplemental disclosure with respect to cash flows (non-cash transactions) |                                      |                                       |
| Deferred financing fee applied to share issue costs                        | -                                    | 15,000                                |
| Agent's warrants                                                           | -                                    | 38,602                                |
| Shares issued for exploration and evaluation                               | \$ -                                 | \$ 6,000                              |

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

**Dakar Resource Corp.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**Periods ended December 31, 2013 and September 30, 2012**

**1. NATURE OF OPERATIONS AND GOING CONCERN**

Dakar Resource Corp. (the “Company”) was incorporated on October 21, 2010 under the Laws of British Columbia and was listed on the TSX Venture Exchange under the trading symbol “DKR” after completion of its initial public offering on May 29, 2012. The address of the Company’s registered office is Suite 400, 570 Granville Street, Vancouver, British Columbia, Canada, V6C 3P1.

The Company is a resource exploration corporation engaged in the acquisition, exploration and development of properties. The Company is in the process of looking for exploration, evaluation, and producing assets. The recoverability of the amounts shown for exploration and evaluation assets interests is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete exploration and development of its properties, the selling prices at the time, (if ever) that the Company commences production from its properties, government policies and regulations and future profitable production or proceeds from the disposition of such properties. These factors indicate the existence of a material uncertainty which may cast significant doubt about the Company’s ability to continue as a going concern. These consolidated financial statements do not include any adjustments to the amounts as classification of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

On January 8, 2014 the Company filed a notice with the British Columbia Securities Commission to change the year end of the Company from September 30 to December 31. As a result, these financial statements include the results of the Company for the fifteen month period ended December 31, 2013 with comparatives for the twelve month period ended September 30, 2012.

**2. BASIS OF PREPARATION**

**(a) Statement of compliance**

The Company prepared its consolidated financial statements in accordance with International Financial Reporting Standard (“IFRS”) as issued by the International Accounting Standard Board (“IASB”) and Interpretations issued by the International Financial Reporting Interpretations Committee (“IFRIC”). These financial statements were authorized for issue by the audit committee and Board of Directors of the Company on January 29, 2013.

These consolidated financial statements have been prepared on a historical cost basis, except for financial instruments classified as fair value through profit or loss, which are stated at their fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting except for cash flow information.

**(b) Significant accounting estimates and judgments**

The preparation of these consolidated 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. Actual results could differ from these estimates.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the end of the reporting period, that could result in a material adjustment to the carrying amounts

**Dakar Resource Corp.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**Periods ended December 31, 2013 and September 30, 2012**

**2. BASIS OF PREPARATION – Continued**

**(b) Significant accounting estimates and judgments - Continued**

of assets and liabilities in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- (i) The carrying value and the recoverability of exploration and evaluation assets, which is included in the financial statements.
- (ii) Recognition of the deferred income tax amounts.
- (iii) Valuation of share-based payments and share purchase warrants.

**(c) Determination of functional currency**

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

**3. BASIS OF CONSOLIDATION**

These consolidated financial statements include the financial statements of the Company and the entities controlled by the Company. Control exists when the Company has the power, directly or indirectly to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of the subsidiary are included in these consolidated financial statements from the date that control commenced until the date control ceases. All intercompany balances and transactions, income and expenses have been eliminated upon consolidation.

The consolidated financial statements include the financial statements of Dakar Resources Corp. and its 100% owned inactive subsidiary Dakar Acquisition LLC, a Delaware limited liability company, which was incorporated in the State of Delaware, United States on December 18, 2012.

**4. SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below have been applied consistently to the period presented in these consolidated financial statements, unless otherwise indicated.

**(a) Financial instruments**

**(i) Financial assets**

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

*Fair value through profit or loss ("FVTPL")* - This category comprises derivatives, or assets acquired

**Dakar Resource Corp.**  
**Notes to the Consolidated Financial Statements**  
**(Expressed in Canadian Dollars)**  
**Periods ended December 31, 2013 and September 30, 2012**

**4. SIGNIFICANT ACCOUNTING POLICIES - Continued**

**(a) Financial instruments - Continued**

**(i) Financial assets - Continued**

or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized through profit or loss.

*Loans and receivables* - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default. The Company's receivables are classified as loans and receivables.

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

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

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

**(ii) Financial liabilities**

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

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**4. SIGNIFICANT ACCOUNTING POLICIES – Continued**

**(a) Financial instruments - Continued**

**(ii) Financial liabilities - Continued**

*FVTPL* - This category comprises derivatives, or liabilities acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized through profit or loss. The Company has not classified any financial liabilities as FVTPL.

*Other financial liabilities:* This category includes amounts due to related parties and accounts payable and accrued liabilities, all of which are recognized at amortized cost. The Company has classified its accounts payable and accrued liabilities as other financial liabilities.

International Financial Reporting Standards 7, *Financial Instruments: Disclosures*, establishes a fair value hierarchy that reflects the significance of the inputs used in making the measurements. The fair value hierarchy has the following levels:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e. as prices) or indirectly (i.e. derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

**(b) Business combinations**

The Company measures goodwill as the fair value of the consideration transferred including the recognized amount of any non-controlling interest in the acquiree, less the net recognized amount (generally fair value) of the identifiable assets acquired and liabilities assumed, all measured as of the acquisition date. When the excess is negative, a bargain purchase gain is recognized immediately in profit or loss.

The Company elects on a transaction-by-transaction basis whether to measure non-controlling interest at its fair value, or at its proportionate share of the recognized amount of the identifiable net assets, at the acquisition date.

Transaction costs, other than those associated with the issue of debt or equity securities, that the Company incurs in connection with a business combination are expensed as incurred.

**(c) Exploration and evaluation assets**

Costs related to the acquisition of exploration and evaluation assets are capitalized by property. Costs incurred before the Company has obtained the legal rights to explore an area and exploration costs are

#### **4. SIGNIFICANT ACCOUNTING POLICIES – Continued**

##### **(c) Exploration and evaluation assets - Continued**

recognized through profit or loss. Exploration costs are expensed as incurred.

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

Any option payments received by the Company from third parties or tax credits refunded to the Company are credited to the capitalized cost or exploration expense as appropriate. If payments received exceed the capitalized cost of the exploration and evaluation assets, the excess is recognized as income in the year received. The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the development, and future profitable production or proceeds from the disposition thereof.

##### **(d) Property and equipment (“P&E”)**

P&E, which includes petroleum and natural gas (“P&NG”) development and production assets, represents costs incurred in developing oil and natural gas reserves and maintaining or enhancing production from such reserves. Future decommissioning costs, related to producing assets, are also capitalized to P&E. P&E is carried at cost, less accumulated depletion, depreciation and amortization and accumulated impairment losses.

Gains and losses on disposal of P&E are determined as the difference between proceeds from disposal and the carrying amount of the asset sold and is recognized in profit or loss.

Costs incurred subsequent to the determination of technical feasibility and commercial viability and the costs replacing parts of property and equipment are recognized as petroleum and natural gas interests only when they increase the future economic benefits embodied in the specific asset to which they relate. All other expenditures are expensed to profit or loss as incurred. Such capitalized petroleum and natural gas interests generally represent costs incurred in developing proved and/or probable reserves and bringing in or enhancing production from such reserves, and are accumulated on a field or geotechnical area basis. The carrying amount of any replaced or sold component is derecognized. The costs of the day-to-day servicing of property and equipment are expensed as incurred.

##### **(e) Impairment**

At the end of each reporting period, the Company’s assets are reviewed to determine whether there is any indication that those assets may be impaired. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm’s length transaction between knowledgeable and willing

#### **4. SIGNIFICANT ACCOUNTING POLICIES – Continued**

##### **(e) Impairment - Continued**

parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

##### **(f) Decommissions and restoration provision**

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

The Company's estimates of decommissioning liability could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures.

These changes are recorded directly to the related asset with a corresponding entry to the decommissioning liability. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates. Changes in the net present value, excluding changes in the Company's estimates of decommissioning costs, are charged to profit or loss.

##### **(g) Loss per share**

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

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**4. SIGNIFICANT ACCOUNTING POLICIES – Continued**

**(h) Income tax**

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

Deferred tax is recorded providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the statement of financial position date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. The Company recognizes deferred tax assets to the extent that it is probable that a deferred tax asset will be recovered.

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

**(i) Related party transactions**

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

**(j) Share-based payments**

The Company has a stock option plan that allows employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee. Consideration paid on the exercise of stock options is credited to share capital and the fair value of the options is reclassified from reserves to share capital.

The fair value is measured at grant date and each tranche is recognized over the term during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each

#### **4. SIGNIFICANT ACCOUNTING POLICIES – Continued**

##### **(j) Share-based payments - Continued**

financial position reporting date, the amount recognized as an expense is adjusted to reflect the number of stock options that are expected to vest.

#### **5. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET EFFECTIVE**

The new standards are not expected to have any significant effect on the Company other than increased disclosure.

##### **• IFRS 9, Financial Instruments: Classification and Measurement**

IFRS 9 reflects the first phase of the International Accounting Standards Board's ("IASB") work on the replacement of IAS 39, Financial Instruments: Recognition and Measurement, and deals with the classification and measurements criteria for financial assets and financial liabilities. This standard establishes two primary measurement categories for financial assets, amortized cost and fair value, and eliminates the existing categories of held-to-maturity, available-for-sale, and loans and receivables. The new classification will depend 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, 2013.

##### **• IFRS 10, Consolidated Financial Statements**

The amendment establishes a single control model that applies to all entities. These changes will require management to exercise significant judgment to determine which entities are controlled, and, therefore, are required to be consolidated by a parent, compared with the former requirements. The amendment becomes effective for annual periods beginning on or after January 1, 2013.

##### **• IFRS 11, Joint Arrangements**

In May 2011, the IASB issued IFRS 11 *Joint Arrangements*, which is effective for annual period beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this Standard earlier, it shall also apply IFRS 10, IFRS 12, IAS 27 (2011) and IAS 28 (2011) at the same time. IFRS 11 replaces the guidance in IAS 31 *Interests in Joint Ventures*.

Under IFRS 11, joint arrangements are classified as either joint operations or joint ventures. IFRS 11 essentially carves out of previous jointly controlled entities, those arrangements which although structured through a separate vehicle, such separation is ineffective and the parties to the arrangement have rights to the assets and obligations for the liabilities and are accounted for as joint operations in a fashion consistent with jointly controlled assets/operations under IAS 31. In addition, under IFRS 11, there is no longer a free choice of equity accounting or proportionate consolidation for joint ventures; the equity method is now required. Upon application of IFRS 11, entities which had previously accounted for joint ventures using proportionate consolidation shall collapse the proportionately consolidated net asset value (including any allocation of goodwill) into

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**5. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET EFFECTIVE – Continued**

**• IFRS 11, Joint Arrangements - Continued**

a single investment balance at the beginning of the earliest period presented. The investment's opening balance is tested for impairment in accordance with IAS 28 (2011) and IAS 36 *Impairment of Assets*. Any impairment losses are recognized as an adjustment to opening retained earnings at the beginning of the earliest period presented. The Company intends to adopt IFRS 11 in its consolidated financial statements for the annual period beginning on January 1, 2013.

**• IFRS 12, Disclosure of Interests in Other Entities**

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities*, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this Standard earlier, it need not apply IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) at the same time. IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. The required disclosures aim to provide information in order to enable users to evaluate the nature of, and the risks associated with, an entity's interest in other entities, and the effects of those interests on the entity's financial position, financial performance and cash flows. The Group intends to adopt IFRS 12 in its consolidated financial statements for the annual period beginning on January 1, 2013.

**• IFRS 13, Fair Value Measurement**

In May 2011, the IASB published IFRS 13, *Fair Value Measurement*, which is effective prospectively for annual periods beginning on or after January 1, 2013. IFRS 13 replaces the fair value measurement guidance contained in individual IFRS with a single source of fair value measurement guidance. It defines fair value as 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, i.e., an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. IFRS 13 explains "how" to measure fair value when it is required or permitted by other IFRS.

In May 2011, the IASB issued IFRS 12 *Disclosure of Interests in Other Entities*, which is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted. If an entity applies this Standard earlier, it need not apply IFRS 10, IFRS 11, IAS 27 (2011) and IAS 28 (2011) at the same time. IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities.

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**5. NEW STANDARDS, INTERPRETATIONS AND AMENDMENTS NOT YET EFFECTIVE – Continued**

• **IAS 32, Financial Instruments: Presentation**

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

**6. RECEIVABLES**

|                                     | <b>December 31,</b> | <b>September 30,</b> |
|-------------------------------------|---------------------|----------------------|
|                                     | <b>2013</b>         | <b>2012</b>          |
| Amount due from a government agency | \$ 5,334            | \$ 22,982            |
| Receivable from regulator           | 30,000              | -                    |
| Other                               | 2,529               | 2,328                |
|                                     | <u>\$ 37,862</u>    | <u>\$ 25,310</u>     |

**7. EXPLORATION AND EVALUATION ASSETS**

|                                      | <b>December 31,</b> | <b>September 30,</b> |
|--------------------------------------|---------------------|----------------------|
|                                      | <b>2013</b>         | <b>2012</b>          |
| <b>Acquisition Cost</b>              |                     |                      |
| Beginning Balance                    | \$ 26,250           | \$ 15,250            |
| Cash                                 | 10,000              | 5,000                |
| Shares                               | -                   | 6,000                |
| Write-off of NAP property            | (36,250)            | -                    |
| Ending Balance                       | <u>\$ -</u>         | <u>\$ 26,250</u>     |
| <b>Exploration Costs</b>             |                     |                      |
| Assay                                | \$ -                | \$ 30,000            |
| Drilling                             | -                   | 85,665               |
| Equipment & material expenses        | -                   | 14,009               |
| General administration               | -                   | 1,098                |
| Property management                  | -                   | 50,943               |
| Road repair and maintenance          | -                   | 10,000               |
| Recoveries                           | (103,635)           | -                    |
| Total exploration (recoveries)/costs | <u>\$ (103,635)</u> | <u>\$ 191,715</u>    |

***NAP Property – Mineral Property***

On November 3, 2010, the Company entered into an Option Agreement to acquire a 100% interest in certain mining claims situated in Kamloops Mining District in the Province of British Columbia, Canada. The Company can exercise its option to acquire 100% interest in these claims after fulfillment of the following terms and conditions:

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**7. EXPLORATION AND EVALUATION ASSETS – Continued**

***NAP Property – Mineral Property - Continued***

- (i) pay to the owner \$7,000 within 10 business days after execution of the Option Agreement (paid); 5,000 on or before October 15, 2011 (paid); \$16,000 on or before December 14, 2012 (not paid); \$40,000 on or before October 15, 2013; \$80,000 on or before October 15, 2014; and
- (ii) incur annual expenditures of \$100,000 on or before October 15, 2011 (incurred); \$200,000 on or before October 15, 2012 (incurred); \$200,000 on or before October 15, 2013 (not incurred); \$500,000 on or before October 15, 2014; and
- (iii) issue 100,000 shares of the Company to the owner within 10 business days after execution of the Option Agreement (issued at a value of \$6,000); additional 80,000 shares on or before October 15, 2011 (issued at a value of \$6,000); additional 80,000 shares on or before December 14, 2012 (not issued);
- (iv) additional 100,000 shares on or before October 15, 2013 (not issued); and additional 100,000 shares on or before October 15, 2014.

The property is subject to a 2% net smelter returns royalty (“NSR”) payable to the optionor. The first 1% NSR can be acquired for \$500,000 and the remaining 1% NSR for \$1,000,000.

On March 7, 2011, the Company paid \$5,007 as reclamation bond on the NAP property. This was refunded to the Company during fiscal 2013.

On September 1, 2011, the Company issued 15,000 shares at a value of \$2,250 as the finder’s fee for the project.

On October 19, 2012, the Company paid the NAP property optionor \$10,000 to obtain a two month extension from October 15, 2012 to December 14, 2012 of the next cash and share option payments due under the NAP property option agreement.

On January 16, 2013, the Company relinquished its option to acquire the NAP property and all related acquisition costs of \$36,250 were written off.

In fiscal 2013, the Company received a tax credit refund of \$103,635, which has been recorded as an exploration recovery.

***Proteus – Mineral Property***

On November 2, 2012, the Company entered into a letter agreement to acquire all the issued and outstanding share capital of Proteus Energy Corporation (“Proteus”), a non-related private company incorporated in Delaware with oil and gas assets located in California, by way of a reverse takeover.

During the fourth quarter of 2013, the Company decided not to proceed with the Proteus agreement, and all related costs were written off.

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**7. EXPLORATION AND EVALUATION ASSETS – Continued**

***Petroleum and natural gas interests - Kansas, USA***

In December 2013, the Company entered into letters of intent (“LOI”) to acquire a 50% working interest in two oil lease packages located in Kansas. The Company paid \$60,866 as a deposit as part of the agreement. Pursuant to the LOI, the Company is to pay \$2.475 million cash for its working interest in the Kansas interests. The Company will enter into a joint operating agreement with Kansas Resource Exploration and Development LLC as operator for exploration and further development of the Kansas interests.

Closing of this transaction is subject to certain closing conditions, including financing and approval of the TSX Venture Exchange (Note 15).

**8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES**

|                     | <b>December 31, 2013</b> | <b>September 30, 2012</b> |
|---------------------|--------------------------|---------------------------|
| Accounts payable    | \$ 81,629                | \$ 172,349                |
| Accrued liabilities | 13,500                   | 23,344                    |
|                     | <b>\$ 95,129</b>         | <b>\$ 195,693</b>         |

**9. SHARE CAPITAL AND EQUITY RESERVES**

**(a) Authorized share capital**

Unlimited common shares without par value.

**(b) Escrowed shares**

As at December 31, 2013, 1,784,053 (September 30, 2012; 8,522,035) common shares were held in escrow.

**Escrowed shares Table**

|                                               | <b>Number of shares</b> |
|-----------------------------------------------|-------------------------|
| Escrowed shares in IPO                        | 12,210,000              |
| Shares released in 2012                       | 3,687,965               |
| Balance, September 30, 2012                   | 8,522,035               |
| Shares released during the period             | 6,737,982               |
| Balance, December 31, 2013                    | 1,784,053               |
| Shares eligible for release during the period | 1,196,033               |
| Balance, December 31, 2014                    | 588,020                 |
| Shares eligible for release during the period | 588,020                 |
| Balance, December 31, 2015                    | -                       |

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**9. SHARE CAPITAL AND EQUITY RESERVES - Continued**

**(c) Issued share capital**

**Issuance of common shares**

On October 15, 2011, 100,000 common shares were issued at \$0.06 per share pursuant to the NAP Property Option Agreement (Note 7).

On May 29, 2012, 3,000,000 common shares were issued at \$0.25 per share upon completion of an IPO for gross proceeds of \$750,000. Agent commissions consisting of \$60,000 in cash and 240,000 share purchase warrants at an exercise price of \$0.25 per share expiring on May 29, 2015 valued at \$38,602 were paid and issued, respectively.

There were no share transactions during the period ended December 31, 2013.

**(d) Stock options**

The Company has a stock options plan in place under which it is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. The options will vest on a date set by the director and expire at a time set by the directors, being not more than ten years from the date of grant, provided that any outstanding options will expire on a date to be determined by the directors following the date that the holder ceases to be a senior officer, director, employee or consultant of the Company, such period not being more than 12 months from the date of such cessation.

On May 31, 2012, the Company granted 450,000 incentive stock options to acquire shares at \$0.25 per share until May 31, 2017 to 3 directors and all the stock options are vested immediately. The fair value of these stock options was \$106,653 or \$0.24 per option.

There were no stock options granted during the period ended December 31, 2013.

The number and weighted average exercise prices of the stock options are as follows:

|                                                | <b>Number of<br/>shares</b> | <b>Exercise Price<br/>Per Share</b> |
|------------------------------------------------|-----------------------------|-------------------------------------|
| Balance, September 30, 2012                    | 450,000                     | \$ 0.25                             |
| Granted during the period                      | -                           | -                                   |
| Outstanding and exercisable, December 31, 2013 | 450,000                     | 0.25                                |

The options outstanding and exercisable at December 31, 2013 have an exercise price of \$0.25 and a weighted average contractual life of 3.42 years.

The grant date fair value of share-based payment plans was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plan are the following:

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**9. SHARE CAPITAL AND EQUITY RESERVES – Continued**

**(d) Stock options - Continued**

|                                                    | <b>December 31, 2013</b> | <b>September 30, 2012</b> |
|----------------------------------------------------|--------------------------|---------------------------|
| <b>Fair value of share options and assumptions</b> |                          |                           |
| Expected volatility                                | -                        | 105%                      |
| Expected life                                      | -                        | 5 years                   |
| Expected dividends                                 | \$ -                     | \$ -                      |
| Risk-free interest rate                            | -                        | 1.38%                     |

**(e) Share purchase warrants**

Changes in outstanding warrants were as follows:

| Number of<br>Warrants<br>Outstanding as at<br>October 1, 2012 | Number of<br>Warrants<br>Issued<br>during the period | Number of<br>Warrants<br>Expired/Exercised<br>during the period | Number of<br>Warrants<br>Outstanding as at<br>December 31, 2013 | Exercise<br>Price<br>Per<br>Warrant | Expiry Dates |
|---------------------------------------------------------------|------------------------------------------------------|-----------------------------------------------------------------|-----------------------------------------------------------------|-------------------------------------|--------------|
| 240,000                                                       | -                                                    | -                                                               | 240,000                                                         | \$ 0.25                             | May 29, 2015 |

There were no share purchase warrants issued during the period ended December 31, 2013.

The average fair value of the compensatory warrants issued during the period ended December 31, 2013 was \$nil (2012 - \$38,602).

The grant date fair value of compensatory share purchase warrants was measured based on the Black-Scholes formula. Expected volatility is estimated by considering historic average share price volatility. The inputs used in the measurement of the fair values at grant date of the share-based payment plan are the following:

|                                              | <b>December 31, 2013</b> | <b>September 30, 2012</b> |
|----------------------------------------------|--------------------------|---------------------------|
| <b>Fair value of warrant and assumptions</b> |                          |                           |
| Expected volatility                          | -                        | 105%                      |
| Expected life                                | -                        | 3 years                   |
| Expected dividends                           | \$ -                     | \$ -                      |
| Risk-free interest rate                      | -                        | 1.21%                     |

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**9. SHARE CAPITAL AND EQUITY RESERVES – Continued**

**(e) Share purchase warrants - Continued**

The warrants outstanding and exercisable at December 31, 2013 have an exercise price of \$0.25 and a weighted average contractual life of 1.41 years.

**10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT**

**(a) Financial risk management**

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

**(b) Financial Instrument Risk Exposure**

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

**(i) Credit Risk**

Credit risk is the risk of financial loss to the Company if a counter-party to a financial instrument fails to meet its payment obligations. The Company has no material counterparties to its financial instruments with the exception of the financial institutions which hold its cash including a demand guaranteed investment certificate (“GIC”). The Company manages this credit risk by ensuring that these financial assets are placed with a major financial institution with strong investment grade ratings by a primary ratings agency. The Company’s receivables consist primarily of amounts due from a regulator. The Company does not believe it has a material exposure to credit risk.

**(ii) Liquidity Risk**

Liquidity risk refers to the risk that the Company will not be able to meet its financial obligations when they become due, or can only do so at excessive cost. 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. As at December 31, 2013, the Company had a cash balance of \$354,520 to settle accounts payable and accrued liabilities of \$95,129. All of the Company’s accounts payable and accrued liabilities have contractual maturities of less than 30 days or are repayable on demand and are subject to normal trade terms.

**(iii) Interest Rate Risk**

The Company is exposed to interest rate risk. The Company’s bank account earns interest income at variable rates. The fair value of cash is relatively unaffected by changes in short-term interest rates. The Company’s future interest income is exposed to short-term rates.

## **10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT – Continued**

### **(b) Financial Instrument Risk Exposure – Continued**

#### **(iv) Commodity price risk**

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

## **11. MANAGEMENT OF CAPITAL**

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

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue debt or acquire or dispose of assets. In order to facilitate the management of its capital requirements, the Company prepares expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. The Company does not pay out dividends. Its investment policy is to keep its cash treasury invested in demand certificates of deposit with major financial institutions.

In order to carry out new acquisition and exploration programs the Company intends to raise additional capital through equity financing.

## **12. RELATED PARTIES**

Directors of the Company control 14.3% percent of the voting shares of the Company. Key management are the officers and directors of the Company. The aggregate value of transactions and outstanding balances relating to key management personnel and entities over which they have control or significant influence were as follows:

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**12. RELATED PARTIES – Continued**

|                             | <b>December 31,<br/>2013</b> | <b>September 30,<br/>2012</b> |
|-----------------------------|------------------------------|-------------------------------|
| Consulting fee - CEO        | \$ 72,000                    | \$ -                          |
| Consulting fee - former CFO | 19,125                       | 5,288                         |
|                             | <u>\$ 91,125</u>             | <u>\$ 5,288</u>               |
| <b>Share issuance costs</b> |                              |                               |
| Former CFO                  | -                            | 3,788                         |
|                             | <u>\$ -</u>                  | <u>\$ 3,788</u>               |

The Company granted nil (2012 - 450,000) stock options to directors of the Company with a fair value of \$nil (2012 - \$106,653). See also Note 9 (d) for more information on the stock options granted.

Included in accounts payable is \$48,000 (2012 - \$nil) due to the Company's CEO.

Included in accounts payable is \$nil (2012 - \$1,680) due to a Company owned by the Company's former CFO.

**13. SEGMENTED INFORMATION**

The Company operates in one business segment being the acquisition and exploration of exploration and evaluation assets in Canada. The Company is pursuing interests in the United States (note 7).

**14. INCOME TAX**

The reconciliation of income taxes at statutory rates is as follows:

|                                              | <b>2013</b>  | <b>2012</b>  |
|----------------------------------------------|--------------|--------------|
| Loss before tax                              | \$ (346,567) | \$ (379,154) |
| Expected income tax (recovery)               | \$ (87,508)  | \$ (96,210)  |
| Change in statutory tax rates and other      | (8,368)      | 1,022        |
| Non-deductible differences                   | (124)        | 31,384       |
| Share issuance costs                         | -            | (50,196)     |
| Change in unrecognized temporary differences | 96,000       | 114,000      |
| Total income tax recovery                    | <u>\$ -</u>  | <u>\$ -</u>  |

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**14. INCOME TAX – Continued**

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

|                                         | <b>2013</b> | <b>2012</b> |
|-----------------------------------------|-------------|-------------|
| Share issue cost                        | \$ 31,000   | \$ 40,000   |
| Canadian eligible capital               | 43,000      | -           |
| Non-capital losses carried forward      | 117,000     | 40,000      |
| Exploration and evaluation assets       | 71,000      | 86,000      |
| Unrecognized deferred income tax assets | \$ 262,000  | \$ 166,000  |

The significant components of the Company's temporary differences, unused tax credits and unused tax losses that have not been included on the consolidated statement of financial position are as follows:

|                                                | <b>2013</b> | <b>Expiry Date<br/>Range</b> | <b>2012</b> | <b>Expiry Date<br/>Range</b> |
|------------------------------------------------|-------------|------------------------------|-------------|------------------------------|
| <b>Temporary Differences</b>                   |             |                              |             |                              |
| Exploration and evaluation assets              | \$278,000   | No expiry date               | \$ -        | No expiry date               |
| Canadian eligible capital (CEC)                | 166,000     | No expiry date               | -           | No expiry date               |
| Share issue costs                              | 119,000     | 2034 to 2037                 | -           | 2033 to 2036                 |
| Non-capital losses available for future period | 456,000     | 2014 to 2033                 | 161,000     | 2014 to 2032                 |

Tax attributes are subject to review, and potential adjustment, by tax authorities.

**15. SUBSEQUENT EVENT**

Subsequent to December 31, 2013, the Company is in the process of completing a non-brokered private placement of 16,666,666 units at \$0.30 per unit in conjunction with the purchase of P&NG interests (Note 7). Each unit is comprised of one common share and one half warrant with each whole warrant being exercisable into one common share of \$0.50 per share for a two year period. To date the Company has received proceeds of \$5,217,624. This financing is subject to finders' fees and regulatory approval.