Terra Nova Energy Ltd.

Condensed Interim Consolidated Financial Statements
Six months ended January 31, 2014 and 2013
(Unaudited - Expressed in Canadian Dollars)

Notice of no Auditor Review of Interim Financial Statements

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim consolidated financial statements of the Company have been prepared by and are the responsibility of the Company's management.

The Company's independent auditor has not performed a review of these financial statements in accordance with standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditor.

Terra Nova Energy Ltd.

Condensed Interim Consolidated Statements of Financial Position

(Unaudited - Expressed in Canadian Dollars)

	Notes	January 31, 2014 $	July 31, 2013 $
Assets			
Current assets			
Cash		255,264	656,589
Cash held-in-trust	6	173,758	1,610,642
Receivables	5	47,484	1,019,841
Prepaid expenses		47,827	8,388
		524,333	3,295,460
Receivables	5	560,751	-
Equipment		27,574	32,440
Exploration and evaluation interests	6	5,307,679	4,926,767
		6,420,337	8,254,667
Liabilities			
Current liabilities			
Accounts payable and accrued liabilities	7	284,002	1,115,698
Convertible notes ï liability component	8	1,805,836	1,689,012
Decommissioning obligation		34,020	32,256
		2,123,858	2,836,966
Equity Attributable to Shareholders			
Share capital	9	24,158,564	24,032,436
Contributed surplus		6,585,888	6,581,604
Convertible notes ï equity component	8	129,153	129,153
Accumulated other comprehensive loss (ñAOCLò)		(300,192)	(666,181)
Deficit		(26,276,934)	(24,659,311)
		4,296,479	5,417,701
		6,420,337	8,254,667

Nature of operations - Note 1

Going concern - Note 2

Commitments and contingencies - Notes 6, 8 and 9

Subsequent event ï Note 6(b)

Approved by the Board of Directors on March 28, 2014

ñHenry Aldorfò Director   ñRobert McMorranò Director

The accompanying notes are an integral part of these condensed interim consolidated financial statements

Terra Nova Energy Ltd.

Condensed Interim Consolidated Statements of Loss and Comprehensive Loss
For the three and six months ended January 31, 2014 and 2013
(Unaudited - Expressed in Canadian Dollars)

		Three months ended January 31,		Six months ended January 31,	
	Notes	2014 $	2013 $	2014 $	2013 $
Audit and accounting	10	62,272	105,910	108,754	147,091
Filing and transfer agent		9,977	10,374	41,793	36,638
Depreciation		2,433	2,725	4,866	6,655
Legal		9,355	29,111	30,313	128,542
Management	10	67,508	225,026	107,508	339,934
Office and miscellaneous		10,930	53,132	20,875	101,691
Overhead charged to exploration		(1,321)	-	(38,916)	-
Shareholder communications		2,161	1,173	2,702	38,109
Share-based payments	9(c)	(3,785)	77,656	32,512	111,546
Travel and related		5,223	2,166	16,525	37,230
Warrant amendment expense	9(d)	-	224,766	-	224,766
Loss before other items		(164,753)	(732,039)	(326,932)	(1,172,202)
Interest income		1,888	44,249	5,688	79,268
Write-off of exploration and evaluation interests	6	(5,794)	-	(1,084,305)	-
Interest, accretion and loan placement expense	8	(106,316)	-	(212,074)	-
Net loss for the period		(274,975)	(687,790)	(1,617,623)	(1,092,934)
Other comprehensive (loss) income					
Exchange (loss) gain on translation of foreign accounts		(100,556)	(37,136)	365,989	26,649
Comprehensive loss for the period		(375,531)	(724,926)	(1,251,634)	(1,066,285)
Loss per share ï basic and diluted	9(f)	(0.00)	(0.01)	(0.02)	(0.02)
Weighted average number of shares outstanding ï basic and diluted		66,322,197	63,553,393	65,886,871	60,649,317

Terra Nova Energy Ltd.
Condensed Interim Consolidated Statements of Cash Flows
For the six months ended January 31, 2014 and 2013
(Unaudited - Expressed in Canadian Dollars)

	2014 $	2013 $
Cash Provided From (Used In)		
Operating Activities		
Net loss for the period	(1,617,623)	(1,092,934)
Items not affecting cash:		
Depreciation	4,866	6,655
Share-based payments ï options	32,512	227,546
Write-off of exploration and evaluation interests	1,084,305	-
Accretion and loan placement expense	116,824	-
Warrant amendment expense	-	224,766
	(379,116)	(633,967)
Net change in non-cash working capital items		
Receivables	534,081	(161,004)
Prepaid expenses	(39,439)	(30,618)
Accounts payable and accrued liabilities	64,503	207,506
	180,029	(618,083)
Investing Activities		
Equipment	-	(44,364)
Exploration and evaluation interests	(2,135,602)	(3,400,469)
	(2,135,602)	(3,444,833)
Financing Activities		
Proceeds from securities issued	97,900	1,290,000
Share issuance costs	-	(104,460)
Proceeds on promissory notes issued	-	300,000
Repayment on promissory notes	-	(300,000)
	97,900	1,185,540
Foreign exchange gain on cash held in foreign currencies	19,464	38,751
Decrease in cash and cash held-in-trust	(1,838,209)	(2,838,625)
Cash and cash held-in-trust ï beginning of the period	2,267,231	8,810,344
Cash and cash held-in-trust ï end of the period	429,022	5,971,719
Cash paid for interest	-	-
Cash paid for income taxes	-	-

Supplemental cash flow information - Note 11

The accompanying notes are an integral part of these condensed interim consolidated financial statements

Terra Nova Energy Ltd.

Condensed Interim Consolidated Statements of Changes in Equity
For the six months ended January 31, 2014 and 2013
(Unaudited - Expressed in Canadian Dollars)

	Common Shares #	Share Capital $	Contributed Surplus $	Equity Component of Convertible Notes $	AOCL $	Deficit $	Total $
Balance – July 31, 2012	57,707,197	23,013,555	5,789,878	-	280,800	(19,147,386)	9,936,847
Issued during the period:							
Pursuant to settlement agreement	400,000	116,000	-	-	-	-	116,000
For cash pursuant to private placements	6,450,000	941,278	348,722	-	-	-	1,290,000
Less issue costs							
Cash	-	(104,460)	-	-	-	-	(104,460)
Finder's warrants	-	(21,437)	21,437	-	-	-	-
Share-based payments	-	-	111,546	-	-	-	111,546
Warrant amendment expense	-	-	224,766	-	-	-	224,766
Comprehensive loss for the period	-	-	-	-	26,649	(1,092,934)	(1,066,285)
Balance – January 31, 2013	64,557,197	23,944,936	6,496,349	-	307,449	(20,240,320)	10,508,414
Issued during the period:							
Pursuant to debt settlement	875,000	87,500	-	-	-	-	87,500
Equity component of convertible notes	-	-	-	129,153	-	-	129,153
Finder's warrants on convertible notes	-	-	93,229	-	-	-	93,229
Share-based payments	-	-	216,792	-	-	-	216,792
Warrant amendment expense	-	-	(224,766)	-	-	-	(224,766)
Comprehensive loss for the period	-	-	-	-	(973,630)	(4,418,991)	(5,392,621)
Balance – July 31, 2013	65,432,197	24,032,436	6,581,604	129,153	(666,181)	(24,659,311)	5,417,701
Issued during the period:							
Pursuant to exercise of options	890,000	97,900	-	-	-	-	97,900
Transfer on exercise of options	-	28,228	(28,228)	-	-	-	-
Share-based payments	-	-	32,512	-	-	-	32,512
Comprehensive loss for the period	-	-	-	-	365,989	(1,617,623)	(1,251,634)
Balance – January 31, 2014	66,322,197	24,158,564	6,585,888	129,153	(300,192)	(26,276,934)	4,296,479

1. Nature of operations

Terra Nova Energy Ltd. (the “Company” or "Terra Nova") was incorporated under the British Columbia Business Corporations Act. The Company’s principal business is the acquisition and exploration of petroleum and natural gas properties. The Company’s shares trade on the TSX Venture Exchange (the "TSX-V") under the symbol “TGC”, the Frankfurt Stock Exchange under the symbol “GLTN” and the OTCQX marketplace under the symbol “TNVMF”. The Company's corporate head office is located at Suite 880, 580 Hornby Street, Vancouver, British Columbia, Canada.

2. Going concern

These condensed interim consolidated financial statements have been prepared on a going concern basis, which assumes that the Company will be able to meet its obligations and continue its operations for the next twelve months. Realization values may be substantially different from carrying values as shown and these financial statements do not give effect to adjustments that would be necessary to the carrying values and classification of assets and liabilities should the Company be unable to continue as a going concern. Such adjustments would be material. At January 31, 2014, the Company had not yet achieved profitable operations, had a working capital deficiency of $1,599,525, had an accumulated deficit of $26,276,934 since inception and expects to incur further losses in the development of its business. As a result, these factors may cast significant doubt upon the Company’s ability to continue as a going concern and, therefore, that it may be unable to realize its assets and discharge its liabilities in the normal course of business. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

3. Basis of presentation

These condensed interim consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") applicable to the preparation of interim financial statements, including IAS 34 - Interim Financial Reporting. These condensed interim consolidated financial statements should be read in conjunction with the annual consolidated financial statements for the year ended July 31, 2013 which have been prepared in accordance with IFRS as issued by the IASB.

In the preparation of these interim condensed consolidated financial statements, the Company has used the same accounting policies and methods of computation as in the annual consolidated financial statements for the year ended July 31, 2013 except as outlined in Note 4.

The preparation of interim financial statements requires management to make judgements, estimates and assumptions that affect the application of accounting policies and the reported amounts of assets and liabilities, income and expense. Actual results may differ from these estimates.

Unless otherwise stated, all dollar amounts are in Canadian dollars. The notation “A$” represents Australian dollars and “US$” represents US dollars.

4. Changes in accounting policies including initial adoption

Certain pronouncements were issued by the IASB or the IFRS Interpretations Committee that are mandatory for accounting periods beginning before or on January 1, 2013.

(Unaudited - Expressed in Canadian Dollars)

The following new standards, amendments and interpretations that have been adopted for the Companyõs current fiscal year have not had a material impact on the Company:

- IFRS 10 ñConsolidated Financial Statementsò
- IFRS 11 ñJoint Arrangementsò
- IFRS 12 ñDisclosure of Interests in Other Entitiesò
- IFRS 13 ñFair Value Measurementò
- IAS 1 ñPresentation of Financial Statementsò amendments

5. Receivables

	January 31, 2014 $	July 31, 2013 $
GST recoverable	34,658	490,534
Recoverable withholding taxes paid on interest earned	12,826	12,161
Receivable from farmors for seismic (Note 6)	542,628	455,130
Receivable from farmors for overhead	18,123	62,016
Total receivables	608,235	1,019,841
Total receivables ï current	47,484	1,019,841
Total receivables ï non-current	560,751	-

6. Exploration and evaluation interests

Exploration and evaluation (ñE&Eò) interests consist of the following:

	January 31, 2014 $	July 31, 2013 $
Holloman Farm-in Agreement acquisition costs	835,582	835,582
Seismic expenditures ï PEL 112	3,846,295	3,846,295
Seismic expenditures ï PEL 444	3,360,838	3,223,844
Drilling expenditures ï PEL 112	3,760,581	2,676,277
Other expenditures	82,411	28,021
Restoration obligations	34,941	34,941
Contributions from farmors	(522,369)	(522,369)
Recoverable from farmors	(573,790)	(493,009)
Write-downs	(5,260,582)	(4,176,277)
Effects of translation of foreign accounts	(256,228)	(526,538)
	5,307,679	4,926,767

(Unaudited - Expressed in Canadian Dollars)

a) Farm-in Agreement

On May 11, 2012, as amended on May 29, 2013, the Company entered into an oil and gas farm-in agreement to secure the right to earn up to a 55% working interest in petroleum and natural gas rights on certain on-shore Australian Petroleum Exploration Licenses (ñPELò), known as PELõs 112 and 444 (the ñFarm-in Agreementò). The purchase price paid for the E&E rights included cash payments that totaled $351,165 (US$350,000), 1,000,000 common shares having a market value of $250,000 and transaction costs including directly attributable due diligence and legal fees of $235,448.

The salient terms of the Farm-in Agreement require staged payments into trust against earn-in obligations as follows:

Earn-in Obligation stage	Due date	Trust account payment A$	Working interest earned on completion
Seismic	Paid	4,700,000	20%
Initial 3 ï Well Program	Paid	4,500,000	5.8333% per well
Option 3 ï Well Program	45 days after completion of the initial 3 ï Well Program	4,500,000	5.8333% per well
Total		13,700,000	Up to 55%

The above referenced working interests cover interests earned in both PEL 112 and 444.

The above referenced trust account payments with respect to each of the Initial and Option Well Programs are to cover estimated total dry-hole costs for each Program. The Company is liable for any dry hole cost overruns incurred pursuant to the Initial 3 - Well Program and up to a maximum of the first A$4,500,000 and 55% thereafter in dry-hole costs incurred pursuant to the Option 3 - Well Program. Completion, equipping and costs to tie into a hydrocarbon gathering system (if available) shall be borne by Terra Nova as to 50% and by the Farmors as to 50%. Under the terms of the Farm-in Agreement, Terra Nova shall be entitled to 80% of the revenues earned from each of the wells drilled under the Initial Well Program and the Option Well Program until such time as it shall have recovered 100% of costs associated with the drilling and completion of each respective well, otherwise known as "payout".

Any trust funds remaining on account at the end of each of the above three phases shall be applied first as to the funding of any succeeding trust obligation and in the event that Terra Nova elects not to proceed with any of the succeeding phases, any unspent trust funds shall be for the account of the Company. Notwithstanding anything in the joint operating agreement, Terra Nova shall act as operator of the PEL's and shall have the exclusive right to propose to carry out all exploration and development work on these properties, including without limitation seismic work area clearance, Seismic Earn-in Obligation, the Initial Well Program, the Option Well Program and the completion and subsequent operation of any wells.

The Farm-in Agreement also contains various provisions in clauses for such matters as site restoration and non-participation that are typical in the oil and gas exploration industry.

b) Seismic Projects

On May 11, 2012, the Company paid the initial A$4,700,000 into trust to cover initial seismic acquisition requirements for each of PEL 112 and 444 and the interpretation of the acquired data. Any amounts incurred pursuant to the Seismic Earn-in Obligation in excess of A$4,700,000 shall be borne by Terra Nova as to 55% and by the Farmors as to 45%. As at January 31, 2014, the balance of seismic funds in the trust account amounted to A$Nil (July 31, 2013 ï A$Nil).

(Unaudited - Expressed in Canadian Dollars)

At July 31, 2013, the Company had completed the seismic acquisition requirements for PEL 112 and accordingly, the Company earned a 20% interest in PEL 112. Subsequent to January 31, 2014, the Company earned a 20% interest in PEL 444 on completion of the seismic acquisition requirements.

At January 31, 2014, the Company had incurred A$7,098,862 ($7,207,133) of the Seismic Earn-in Obligation. The Farmors are obligated to pay for 45% of Seismic Earn-in Obligation in excess of A$4,700,000. In July 2013, the Company received contributions of A$523,259 from one of the Farmors. At January 31, 2014, the Company has recorded a receivable of A$558,260 ($542,628) from the Farmors. As the Company expects to either settle the receivables from Farmors in exchange for non-current assets or receive cash at a future date more than 12 months from now, the Company has classified the receivables from Farmors as non-current.

c) Initial 3 - Well Program Earn-in Obligation

On October 31, 2012, the Company had made the A$4,500,000 payment due pursuant to the Initial 3 Well Program Earn-in Obligation. On May 29, 2013, pursuant to an amending agreement, A$500,000 was advanced to the seismic trust account. As at January 31, 2014, the balance of drilling funds in the trust account amounted to A$178,763 ($173,758) (July 31, 2013 - A$1,747,658 ($1,610,642)).

During the six months ended January 31, 2014, the Company completed one well at PEL 112 and accordingly, the Company earned an additional 5.8333% interest in PEL 112. Subsequent to January 31, 2014, the Farmors agreed that the Company had earned an additional 5.8333% interest in PEL 444 as a result of completing this well. At the date these financial statements were approved by the Board, March 28, 2014, the Company had a 25.8334% interest in PEL 112 and PEL 444.

d) Impairment

During the six months ended January 31, 2014, the Company completed one well at PEL 112. The well resulted in a dry hole and the well was plugged and abandoned. At July 31, 2013, the Company recorded a write-down of $4,176,277. During the six months ended January 31, 2014, the Company recorded an additional write-down of $1,084,305 based on ongoing drilling expenditures.

e) Decommissioning Obligation

The Company recorded a current obligation of A$35,000 for the abandonment and restoration of the dry hole at PEL 112.

7. Accounts payable and accrued liabilities

	January 31, 2014 $	July 31, 2013 $
Trade payables	112,354	987,032
Amounts due to related parties (Note 10)	60,523	112,791
Interest payable on convertible notes (Note 8)	111,125	15,875
Total accounts payable and accrued liabilities	284,002	1,115,698

(Unaudited - Expressed in Canadian Dollars)

8. Convertible notes

	Liability Component $	Equity Component $
Balance – July 31, 2012	-	-
Amount at date of issue	1,775,847	129,153
Loan placement expenses	(106,151)	-
Amortization of loan placement expenses	8,845	-
Accretion	10,471	-
Balance – July 31, 2013	1,689,012	129,153
Amortization of loan placement expenses	53,070	-
Accretion	63,754	-
Balance – January 31, 2014	1,805,836	129,153

On July 8, 2013, the Company issued convertible notes for the principal sum of $1,905,000. The convertible notes bear interest at 10% and are repayable on July 8, 2014. The convertible notes are convertible at the option of the holder into common shares of the Company at a conversion price of $0.11 per share.

For accounting purposes, the convertible notes are separated into its liability and equity components. The fair value of the liability component at the time of issue was calculated as the discounted cash flows for the convertible notes assuming an 18% effective interest rate which was the estimated rate for convertible notes without a conversion feature. The fair value of the equity component (conversion feature) was determined at the time of issue as the difference between the face value of the convertible notes and the fair value of the liability component.

In connection with the convertible notes, the Company incurred $12,922 in legal and filing fees. In addition, the Company issued an aggregate of 818,181 finder's warrants entitling the holder thereof the right to purchase a common share at a price of $0.11 per share up to July 8, 2014. The Company valued the finder's warrants at $93,229 using the Black-Scholes option pricing model. The assumptions used in the Black-Scholes option pricing model was as follows: share price of $0.20; exercise price of $0.11; expected volatility of 100%; expected life of 1 year; a risk-free interest rate of 0.78%; and an expected dividend rate of nil. The aggregate loan placement expenses of $106,151 have been recorded against the liability component and are being amortized to the statements of comprehensive loss over the life of the convertible notes.

During the six months ended January 31, 2014, the Company recorded interest expense of $95,250, accretion expense of $63,754 and amortization of loan placement expenses of $53,070.

9. Share capital

a) Authorized:

An unlimited number of common shares without par value.

b) Financings:

During the six months ended January 31, 2014, the Company did not complete any financings. During the six months ended January 31, 2013, the Company completed the following financings:

i) On October 31, 2012, the Company completed the first tranche of a non-brokered private placement of 3,500,000 units at a price of $0.20 per unit for gross proceeds of $700,000. Each unit is comprised of one common share and one share purchase warrant entitling the holder thereof the right to purchase one additional common share at a price of $0.30 per share up to October 31, 2014. The Company allocated $186,298 to the share purchase warrants using the relative fair value method. The assumptions used in the Black-Scholes option pricing model was as follows: share price of $0.18; exercise price of $0.30; expected volatility of 100%; expected life of 2 years; a risk-free interest rate of 1.5%; and an expected dividend rate of nil.

ii) On November 6, 2012, the Company completed the second tranche of a non-brokered private placement of 1,000,000 units at a price of $0.20 per unit for gross proceeds of $200,000. Each unit is comprised of one common share and one share purchase warrant entitling the holder thereof the right to purchase one additional common share at a price of $0.30 per share up to November 6, 2014. The Company allocated $57,610 to the share purchase warrants using the relative fair value method. The assumptions used in the Black-Scholes option pricing model was as follows: share price of $0.18; exercise price of $0.30; expected volatility of 100%; expected life of 2 years; a risk-free interest rate of 1.5%; and an expected dividend rate of nil.

iii) On November 26, 2012, the Company completed the third tranche of a non-brokered private placement of 1,550,000 units at a price of $0.20 per unit for gross proceeds of $310,000. Each unit is comprised of one common share and one share purchase warrant entitling the holder thereof the right to purchase one additional common share at a price of $0.30 per share up to November 26, 2014. The Company allocated $82,327 to the share purchase warrants using the relative fair value method. The assumptions used in the Black-Scholes option pricing model was as follows: share price of $0.15; exercise price of $0.30; expected volatility of 100%; expected life of 2 years; a risk-free interest rate of 1.5%; and an expected dividend rate of nil.

iv) On December 5, 2012, the Company completed the fourth tranche of a non-brokered private placement of 400,000 units at a price of $0.20 per unit for gross proceeds of $80,000. Each unit is comprised of one common share and one share purchase warrant entitling the holder thereof the right to purchase one additional common share at a price of $0.30 per share up to December 5, 2014. The Company allocated $22,487 to the share purchase warrants using the relative fair value method. The assumptions used in the Black-Scholes option pricing model was as follows: share price of $0.17; exercise price of $0.30; expected volatility of 100%; expected life of 2 years; a risk-free interest rate of 1.5%; and an expected dividend rate of nil.

In connection with the October 31, November 6, November 26 and December 5, 2012 private placements, the Company paid cash commissions of $64,500 and incurred $39,960 in legal and filing fees. In addition, the Company issued an aggregate of 322,500 finder's warrants entitling the holder thereof the right to purchase a common share at a price of $0.30 per share up to December 5, 2014. The Company valued the finder's warrants at $21,437 using the Black-Scholes option pricing model. The assumptions used in the Black-Scholes option pricing model was as follows: share price of $0.17; exercise price of $0.30; expected volatility of 100%; expected life of 2 years; a risk-free interest rate of 1.5%; and an expected dividend rate of nil.

c) Options:

The Company has established a stock option plan in accordance with the policies of the TSX Venture Exchange under which it is authorized to grant share purchase options up to 10% of its outstanding shares. The maximum number of common shares reserved for issue to any one person under the plan cannot exceed 5% of the issued and outstanding number of common shares at the date of the grant and the maximum number of common shares reserved for issue to a consultant or a person engaged in investor relations activities cannot exceed 2% of the issued and outstanding number of common shares at the date of the grant. The exercise price of each option granted under the plan may not be less than the Market Price (as that term is defined in the policies of the TSX Venture Exchange). The options are for a maximum term of ten years and vest as determined by the board of directors.

(Unaudited - Expressed in Canadian Dollars)

A summary of the status of the Company's stock option plan as at January 31, 2014 and July 31, 2013 and the changes during the periods then ended is presented below:

	Number of options	Weighted average exercise price $
Balance outstanding – July 31, 2012	2,750,000	0.30
Granted	1,600,000	0.20
Forfeited	(550,000)	0.30
Balance outstanding – July 31, 2013	3,800,000	0.26
Granted	890,000	0.11
Exercised	(890,000)	0.11
Forfeited	(300,000)	0.26
Balance outstanding and exercisable – January 31, 2014	3,500,000	0.26

During the six months ended January 31, 2014, the weighted average stock price on each option exercise date during that period was $0.055.

At January 31, 2014, stock options outstanding that entitled the holder thereof to acquire one share for each option held are as follows:

Expiry Date	Exercise Price $	Number of Options
June 10, 2014	0.30	400,000
November 30, 2014	0.30	500,000
May 16, 2015	0.30	600,000
July 18, 2018	0.18	1,300,000
May 16, 2022	0.30	700,000
		3,500,000

During the six months ended January 31, 2014, the Company recorded share-based payments expense of $32,512 (2013 - $111,546). The weighted average fair value of stock options granted during the six months ended January 31, 2014 of $0.032 per option was estimated using the Black-Scholes option pricing model with the following assumptions:

	2013	2012
Average stock price	0.06	0.19
Average exercise price	0.11	0.30
Average risk-free interest rate	1.63%	0.78%
Expected life	4.0 years	1.5 years
Expected volatility	100%	100%
Expected dividends	$nil	$nil

The expected volatility was calculated in comparison to similar TSX Venture Exchange companies and the historical stock price of the Company since being listed.

(Unaudited - Expressed in Canadian Dollars)

d) Warrants:

A summary of warrants outstanding as of January 31, 2014 and July 31, 2013 and changes during the periods then ended is presented below:

	Number of warrants	Weighted average exercise price $
Balance outstanding ï July 31, 2012	57,249,964	0.30
Issued	7,590,681	0.28
Expired	(11,233,000)	0.30
Balance outstanding ï January 31, 2014 and July 31, 2013	53,607,645	0.29

At January 31, 2014, warrants outstanding that entitled the holder thereof to acquire one share for each warrant held are as follows:

Expiry Date	Exercise Price $	Number of Warrants
May 11, 2014	0.30	42,608,300
May 11, 2014	0.25	3,408,664
July 8, 2014	0.11	818,181
October 31, 2014	0.30	3,500,000
November 6, 2014	0.30	1,000,000
November 26, 2014	0.30	1,550,000
December 5, 2014	0.30	722,500
		53,607,645

On November 16, 2012, the expiry date of 10,245,000 warrants was extended from December 30, 2012 to June 30, 2013 and accordingly, the Company recorded warrant amendment expense of $224,766 using the Black-Scholes option pricing model. The assumptions used in the Black-Scholes option pricing model was as follows: share price of $0.17; exercise price of $0.30; expected volatility of 100%; expected life of 0.12 to 0.62 years; a risk-free interest rate of 0.78%; and an expected dividend rate of nil.

e) Convertible notes:

The Company has outstanding convertible notes (Note 8) which are convertible into 17,318,181 common shares of the Company. The conversion feature expires on July 8, 2014.

f) Basic and diluted loss per share:

During the six months ended January 31, 2014 and 2013, potentially dilutive common shares totaling 74,425,826 (2013 ï 65,984,464) were not included in the calculation of basic and diluted loss per share because their effect was anti-dilutive.

(Unaudited - Expressed in Canadian Dollars)

10. Related party transactions

During the three and six months ended January 31, 2014 and 2013, the Company incurred the following expenditures charged by directors and officers of the Company and/or companies they owned or were significant shareholders of:

	Three months ended January 31, 2014 $	Three months ended January 31, 2013 $	Six months ended January 31, 2014 $	Six months ended January 31, 2013 $
Non-audit accounting fees	15,027	32,000	32,040	32,000
Legal fees	1,243	248,500	3,597	333,500
Management fees	67,561	20,300	107,561	39,800
Exploration and evaluation interests ï management and consulting fees	15,963	151,787	59,244	319,839
	99,794	452,587	202,442	725,139

At January 31, 2014, accounts payable and accrued liabilities included $60,523 (July 31, 2013 - $112,791) of amounts owing to directors and officers of the Company and/or companies they control or of which they were significant shareholders. The amounts owing include amounts related to expenditures charged to the Company and for reimbursements of expenditures paid for on behalf of the Company. The amounts owing are unsecured, non-interest bearing and due on demand.
In addition to the related parties disclosed above, $33,000 of the convertible notes (Note 8) are related party transactions as they were transactions entered into with directors of the Company.

Key management includes the current and former Chief Executive Officer, the current and former Chief Financial Officer, the former Chief Operating Officer and the current and former directors of the Company. The compensation paid or payable to key management for services during the three and six months ended January 31, 2014 and 2013 is identical to the table above other than share-based payments expense. During the six months ended January 31, 2014, key management received share-based payments of $32,512 (2013 - $95,415).

11. Supplemental cash flow information

Investing and financing activities that do not have a direct impact on current cash flows are excluded from the statements of cash flows. During the six months ended January 31, 2014 the following transactions were excluded from the statement of cash flows:

a) exploration and evaluation interest expenditures of $7,290 included in accounts payable and accrued liabilities at January 31, 2014, less expenditures included in accounts payable at July 31, 2013 of $903,489 (net inclusion of $896,199); and,

b) exploration and evaluation interest of $577,605 included in receivables at January 31, 2014, less amounts included in receivables at July 31, 2013 of $455,130 (net inclusion of $122,475).

During the six months ended January 31, 2013 the following transactions were excluded from the statement of cash flows:

a) exploration and evaluation interest expenditures of $465,992 included in accounts payable and accrued liabilities at January 31, 2013, less expenditures included in accounts payable at July 31, 2012 of $164,911 (net exclusion of $301,081); and,

b) the issuance by the Company of 322,500 agent warrants at the fair value of $21,437.

(Unaudited - Expressed in Canadian Dollars)

12. Geographic Information

Management has presented segmented information on a geographical basis. Geographic segment information of the Company's assets is as follows:

	January 31, 2014 $	July 31, 2013 $
Canada	191,876	404,310
Australia	6,228,461	7,850,357
Total assets	6,420,337	8,254,667

Geographic segmentation of the Company's net loss during the six months ended January 31, 2014 and 2013 is as follows:

	2014 $	2013 $
Canada	(492,706)	(1,090,865)
Australia	(1,124,917)	(2,069)
Net loss	(1,617,623)	(1,092,934)

Geographic segmentation of the Company's capital expenditures during the six months ended January 31, 2014 and 2013 is as follows:

	2014 $	2013 $
Australia	2,135,602	3,444,833
Total capital expenditures	2,135,602	3,444,833