

TELFERSCOT RESOURCES INC.

Consolidated Financial Statements

Years ended December 31, 2013 and 2012

(Stated in \$CAD)

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of Telferscot Resources Inc.

We have audited the accompanying consolidated financial statements of Telferscot Resources Inc., which comprise the consolidated statement of financial position as at December 31, 2013, and the consolidated statements of loss and comprehensive loss, changes in shareholders' equity, and cash flows for the year then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these 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 financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

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

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

Opinion

In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Telferscot Resources Inc. as at December 31, 2013, and its financial performance and its cash flows for the year then ended in accordance with International Financial Reporting Standards.

Emphasis of Matter

Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which highlights the existence of a material uncertainty relating to conditions that cast significant doubt on Telferscot Resources Inc.'s ability to continue as a going concern.

Other matters

The consolidated financial statements as at December 31, 2012 and for the year then ended were audited by MSCM LLP of Toronto, Canada, prior to its merger with MNP. MSCM LLP expressed an opinion without reservation on those statements in their audit report dated April 29, 2013.

MNP LLP

**Chartered Professional Accountants
Licensed Public Accountants**

Toronto, Ontario
April 30, 2014

TELFERSCOT RESOURCES INC.
Consolidated Statements of Financial Position
As at December 31, 2013 and 2012
(Stated in \$CAD)

| | 2013 | 2012 |
|---|-------------------|-------------------|
| ASSETS | | |
| Current: | | |
| Cash | \$ 47,509 | \$ 315,110 |
| Term deposits | - | 153,250 |
| Accounts receivable (Note 4) | 33,148 | 40,169 |
| Prepaid expenses | 3,252 | 19,907 |
| Advances to DRC operations (Note 5) | - | 24,815 |
| | 83,909 | 553,251 |
| Long term: | | |
| Investment in private company (Note 6) | 258,018 | - |
| | \$ 341,927 | \$ 553,251 |
| LIABILITIES | | |
| Current: | | |
| Accounts payable and accrued liabilities (Note 7) | \$ 126,878 | \$ 64,582 |
| SHAREHOLDERS' EQUITY | | |
| Share capital (Note 8) | 3,440,655 | 3,440,870 |
| Contributed surplus | 27,749 | 18,500 |
| Reserve for warrants (Note 9) | 12,000 | 16,000 |
| Reserve for share based payments (Note 10) | 145,391 | 143,521 |
| Accumulated deficit | (3,410,746) | (3,109,505) |
| Accumulated other comprehensive loss | - | (20,717) |
| | 215,049 | 488,669 |
| | \$ 341,927 | \$ 553,251 |

Going concern (Note 1(c))

Commitment (Note 18)

The accompanying notes form an integral part of these consolidated financial statements

Approved on behalf of the Board:

"Gerry Gravina", Director

"Stephen Coates", Director

TELFERSCOT RESOURCES INC.
Consolidated Statements of Loss and Comprehensive Loss
Years ended December 31, 2013 and 2012
(Stated in \$CAD)

| | <u>2013</u> | <u>2012</u> |
|---|---------------------|-----------------------|
| Revenue | | |
| Interest income | \$ 429 | \$ 4,510 |
| Foreign exchange gain | - | 1,652 |
| | <u>429</u> | <u>6,162</u> |
| Expenses | | |
| Exploration expenditures (Note 12(b)) | 274,928 | 1,100,845 |
| Office and administration | 225,748 | 223,779 |
| Professional fees | 61,155 | 72,620 |
| Shareholder communications and reporting issuer costs | 36,430 | 65,803 |
| Insurance | 14,370 | 15,103 |
| Foreign exchange loss | 14,384 | - |
| Share based payments (Note 10(d)) | 11,119 | 35,354 |
| Impairment of loan receivable (Note 17(e)) | - | 49,980 |
| | <u>638,134</u> | <u>1,563,484</u> |
| | (637,705) | (1,557,322) |
| Other income | | |
| Gain on de-recognition of KCC investment (Note 6(c)(iii)) | <u>336,464</u> | <u>-</u> |
| Net loss | \$ (301,241) | \$ (1,557,322) |
| Basic and diluted loss per share (Note 11) | \$ (0.008) | \$ (0.042) |
| Comprehensive loss | | |
| Net loss | \$ (301,241) | \$ (1,557,322) |
| Item that may be reclassified subsequently to net loss | | |
| Exchange difference on translation of foreign operations | <u>1,417</u> | <u>(12,363)</u> |
| Comprehensive loss | \$ (299,824) | \$ (1,569,685) |

The accompanying notes form an integral part of these consolidated financial statements

TELFERSCOT RESOURCES INC.
Consolidated Statements of Changes in Shareholders' Equity
Years ended December 31, 2013 and 2012
(Stated in \$CAD)

| | Share capital | | Reserve for warrants | | Contributed surplus | Reserve for share based payments | Accumulated deficit | Accumulated other comprehensive loss | Total |
|--|-------------------|---------------------|----------------------|------------------|---------------------|----------------------------------|-----------------------|--------------------------------------|---------------------|
| | Shares | Amount | Number | Amount | | | | | |
| | (Note 8) | | (Note 9) | | | (Note 10) | | | |
| As at January 1, 2012 | 37,199,200 | \$ 2,943,920 | 8,375,000 | \$ 23,500 | \$ - | \$ 119,167 | \$ (1,552,183) | \$ (8,354) | \$ 1,526,050 |
| Expiry of unexercised July, 2011 warrants | - | - | (375,000) | (7,500) | 7,500 | - | - | - | - |
| Private placement | 3,313,000 | 496,950 | - | - | - | - | - | - | 496,950 |
| Forfeiture of stock options | - | - | - | - | 11,000 | (11,000) | - | - | - |
| Share based payments | - | - | - | - | - | 35,354 | - | - | 35,354 |
| Net loss for year | - | - | - | - | - | - | (1,557,322) | - | (1,557,322) |
| Currency translation adjustment | - | - | - | - | - | - | - | (12,363) | (12,363) |
| As at December 31, 2012 | 40,512,200 | 3,440,870 | 8,000,000 | 16,000 | 18,500 | 143,521 | (3,109,505) | (20,717) | 488,669 |
| Exercise of warrants | 2,000,000 | 104,000 | (2,000,000) | (4,000) | - | - | - | - | 100,000 |
| Share based payments | - | - | - | - | - | 11,119 | - | - | 11,119 |
| Forfeiture of stock options | - | - | - | - | 9,249 | (9,249) | - | - | - |
| Net loss for year | - | - | - | - | - | - | (301,241) | - | (301,241) |
| Currency translation adjustment | - | - | - | - | - | - | - | 1,417 | 1,417 |
| Realization of currency translation difference | - | - | - | - | - | - | - | 19,300 | 19,300 |
| Share for share exchange (Note 6(d)) | (12,237,200) | (104,215) | - | - | - | - | - | - | (104,215) |
| As at December 31, 2013 | 30,275,000 | \$ 3,440,655 | 6,000,000 | \$ 12,000 | \$ 27,749 | \$ 145,391 | \$ (3,410,746) | \$ - | \$ 215,049 |

The accompanying notes form an integral part of these consolidated financial statements

TELFERSCOT RESOURCES INC.
Consolidated Statements of Cash Flows
Years ended December 31, 2013 and 2012
(Stated in \$CAD)

| | 2013 | 2012 |
|--|------------------|--------------------|
| Operating activities | | |
| Net loss for year | \$ (301,241) | \$ (1,557,322) |
| Add (deduct) items not affecting cash: | | |
| Gain on de-recognition of KCC investment | (336,464) | - |
| Share based payments | 11,119 | 35,354 |
| Impairment of loan receivable | - | 49,980 |
| Unrealized foreign exchange loss | 20,717 | (12,363) |
| | (605,869) | (1,484,351) |
| Change in non-cash working capital items | | |
| Accounts receivable | 7,021 | (7,543) |
| Prepaid expenses | 16,655 | (13,429) |
| Advances to DRC operations | (954) | 224,674 |
| Accounts payable and accrued liabilities | 62,296 | (30,235) |
| | (520,851) | (1,310,884) |
| Investing activities | | |
| Term deposits | 153,250 | 427,605 |
| Loan receivable | - | (49,980) |
| | 153,250 | 377,625 |
| Financing activities | | |
| Proceeds on exercise of warrants and issuance of share capital | 100,000 | 496,950 |
| | (267,601) | (436,309) |
| Decrease in cash | (267,601) | (436,309) |
| Cash, beginning of year | 315,110 | 751,419 |
| Cash, end of year | \$ 47,509 | \$ 315,110 |

The accompanying notes form an integral part of these consolidated financial statements

TELFERSCOT RESOURCES INC.
Notes to Consolidated Financial Statements
Years ended December 31, 2013 and 2012
(Stated in \$CAD)

1. NATURE OF OPERATIONS AND GOING CONCERN

(a) Nature of operations

Telferscot Resources Inc. ("the company" or "Telferscot") was incorporated under the Canada Business Corporations Act on May 31, 2010 and is engaged in the acquisition and exploration of resource properties in the Democratic Republic of Congo ("DRC").

As a result of the transactions detailed in note 6, the company no longer actively operates in the DRC, but now holds its exploration interests through a passive 7.4% interest in Kolwezi Copper Corp. ("KCC").

It has registered offices at 401 Bay Street, Suite 2702, Toronto, Ontario, Canada, M5H 2Y4 and is a reporting issuer in the provinces of Ontario, British Columbia, Alberta and Manitoba. The company trades under the symbol "TFS" on the CSE.

(b) Development stage enterprise

KCC is considered a development stage enterprise, so Telferscot's passive 7.4% interest is subject to the risks that come with such an entity, as detailed below:

KCC has not yet determined whether its interests in exploration licenses contain reserves that are economically recoverable. KCC's ability to recover amounts from these properties is largely dependent upon a number of factors including environmental risks, legal and political risks, the discovery of economically recoverable reserves, confirmation of KCC's interest in the underlying properties, the ability of KCC to obtain necessary financing to complete the development and future profitable production or proceeds from the disposition of the properties. It is considered to be a development stage enterprise as it has yet to generate any revenue from operations.

Although KCC has taken steps to verify title to the exploration licenses on which it is conducting exploration and in which it has an interest, these procedures do not guarantee its title. Although management is not aware of any such agreements, transfers or defects, title may be subject to unregistered prior agreements, claims or transfers and may be affected by undetected defects. Assets located outside of North America are subject to the risk of foreign investment, including currency exchange fluctuations and restrictions and local political instability and uncertainty.

KCC's operations in the DRC are exposed to various levels of political risk and uncertainties, including political and economic instability, government regulations relating to exploration and mining, military repression and civil disorder, all or any of which may have a material adverse impact on KCC's activities or may result in impairment in or loss of part or all of KCC's assets.

KCC faces risks and uncertainties including: (i) the inability to obtain the financing necessary to complete the development of its license interests, (ii) realization of proceeds from the sale of its exploration license interests, or (iii) its exploration licenses being revoked as a result of title disputes, a failure to comply with agreements or security issues preventing the safe exploration and development of any properties under license.

TELFERSCOT RESOURCES INC.
Notes to Consolidated Financial Statements
Years ended December 31, 2013 and 2012
(Stated in \$CAD)

1. NATURE OF OPERATIONS AND GOING CONCERN, CONTINUED

(c) Going concern

The accompanying financial statements have been prepared using International Financial Reporting Standards applicable to a going concern. Accordingly, they do not give effect to adjustments that would be necessary should the company be unable to continue as a going concern. It would, in this situation, be required to realize its assets and liquidate its liabilities and commitments in other than the normal course of business and at amounts different from those in the accompanying consolidated financial statements. Such adjustments could be material.

As at December 31, 2013, the company has no source of operating cash flow and had an accumulated deficit of \$3,410,746 (2012 - \$3,109,505). Working capital as at December 31, 2013 was a deficiency of \$42,969 compared with a surplus of \$488,669 as at December 31, 2012. Comprehensive loss for the year ended December 31, 2013 was \$299,824 (2012 - \$1,569,685). Operations since inception have been funded solely from the issuance of share capital and exercise of warrants. The company has ongoing operating requirements as a public company and possible future spending requirements with respect to its DRC exploration project, subject to the new financing of the Kolwezi Project obtained in June, 2013 (see *note 6(b)*).

The company now holds a passive investment in a private company and, as a result, has no source of operating cash flow. The company intends to raise funds as and when required to fund its public company operating costs. There is no assurance that the company will be able to raise additional such funds on reasonable terms. The only sources of future funds presently available to the company are through the exercise of outstanding stock options or warrants, the sale of equity capital of the company or the sale by the company of its interest in KCC. The ability of the company to arrange such financing in the future will depend, in part, upon the prevailing capital market conditions, the business performance of the company and the continued support of its shareholder base. However, there are material uncertainties that may cast significant doubt as to the propriety of the use of the going concern assumption upon which these consolidated financial statements have been prepared.

2. SIGNIFICANT ACCOUNTING POLICIES

(a) Statement of compliance

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standard Board ("IASB") and were authorized for issuance by the Board of Directors on April 29, 2014.

As required by the IASB, effective January 1, 2013 the company adopted the following standards and amendments to IFRS:

IFRS 7: "Financial Instruments: Amendment Regarding Offsetting Financial Assets and Financial Liabilities" enables users of financial statements to better compare financial statements prepared in accordance with IFRS and US Generally Accepted Accounting Principles. The company's adoption of IFRS 7 had no effect on its consolidated financial statements.

TELFERSCOT RESOURCES INC.
Notes to Consolidated Financial Statements
Years ended December 31, 2013 and 2012
(Stated in \$CAD)

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

IFRS 10: "Consolidated Financial Statements" provides a single model to be applied in the control analysis for all investees stating that an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 carries forward the consolidation procedures substantially unmodified from IAS 27. The company's adoption of IFRS 10 was effectively applied through the de-recognition of the investment in KCC (*see note 6*).

IFRS 12: "Disclosure of Interests in Other Entities" provides disclosure guidance on interests in subsidiaries, joint arrangements, associates and unstructured entities. This standard is effective for annual periods beginning on or after January 1, 2013 with earlier application permitted, and has been applied with respect to de-recognition of the investment in KCC.

IFRS 13: "Fair Value Measurement" defines fair value, sets out required disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards. The adoption of IFRS 13 did not require any adjustment to the valuation techniques currently used to measure fair value and did not result in any measurement adjustments as at January 1, 2013.

IAS 1: "Presentation of Financial Statements" was amended and requires companies to group items presented within Other Comprehensive Income based on whether they may be subsequently reclassified to profit or loss. The company's adoption of IAS 1 resulted in a different presentation within the consolidated statement of net loss and comprehensive loss as the items that will never be reclassified to net income (loss) are separated from those that will be.

(b) Basis of presentation

The financial statements reflect the consolidation of the accounts of the company and its wholly-owned subsidiary, 1830953 Ontario Inc. ("Numco"), an Ontario company (*see note 6(a) re initial asset acquisition*) up to September 25, 2013, the date at which Numco and the company amalgamated as one of the steps required to complete the October, 2013 share exchange transaction described in note 6(d).

The consolidated financial statements have been prepared on the historical cost basis as modified by the measurement at fair value of financial assets classified as fair value through profit and loss ("FVTPL").

The preparation of consolidated financial statements in accordance with IFRS requires management to make certain critical accounting estimates and to exercise judgement in applying the company's accounting policies. The areas involving a higher degree of judgement or complexity, or areas where assumptions and estimates are significant to these consolidated financial statements, are disclosed in note 2(m).

TELFERSCOT RESOURCES INC.
Notes to Consolidated Financial Statements
Years ended December 31, 2013 and 2012
(Stated in \$CAD)

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(c) Functional currency and foreign currency translation

Functional and presentation currency

The consolidated financial statements are presented in Canadian dollars, which is also the functional currency of the corporate offices located in Canada. The functional currency of the DRC operations is the US dollar, although the company is no longer active there.

Foreign currency translation

Foreign currency transactions are initially recorded into the functional currency at the transaction date exchange rate. Monetary assets and liabilities denominated in a foreign currency are translated into the functional currency at the exchange rate at the end of the reporting period with all foreign currency adjustments being expensed.

Financial results of the DRC operations, for which the functional currency is the US dollar, have been translated into Canadian dollars, the presentation currency of the parent, as follows: all asset and liability accounts (including non-monetary and capital items) have been translated at the exchange rate at the end of the reporting period and all revenue and expense accounts and cash flow statement items have been translated at average exchange rates for the reporting period. The resulting translation gains and losses have been recorded as foreign currency translation adjustments in other comprehensive income (loss).

(d) Cash

Cash consists of deposits held with banks.

(e) Term deposits

Term deposits are highly liquid investments with original terms to maturity greater than three months.

(f) Investment in private company

The investment in a private company (*see note 6*) has initially been measured at fair value, with subsequent measurement done at cost under the exceptions permitted under IAS 39.46 in that this equity investment (1) does not have a quoted market price in an active market and (2) its fair value cannot be reliably measured by any other means.

(g) Provisions

A provision is recognized on the consolidated statements of financial position when the company has a present legal or constructive obligation as a result of a past event, and it is probable that an outflow of economic benefits will be required to settle the obligation. If the effect is material, provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and, where appropriate, the risks specific to the liability.

TELFERSCOT RESOURCES INC.
Notes to Consolidated Financial Statements
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(Stated in \$CAD)

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(h) Environmental rehabilitation provision

The company's activities could give rise to obligations for environmental rehabilitation which can include facilities dismantling, removal, treatment of waste materials, monitoring, compliance with environmental regulations, security and other site-related costs required to perform the rehabilitation work. Any current expenditures regarding the environmental rehabilitation are charged to the cost of the project. Provisions for rehabilitation are periodically adjusted by the company, when applicable.

(i) Income taxes

Deferred tax is recognized on temporary differences between the carrying amounts of assets and liabilities in the financial statements and the corresponding tax bases used in the computation of taxable profit. Deferred tax liabilities are generally recognized for all taxable temporary differences. Deferred tax assets are generally recognized for all deductible temporary differences to the extent that it is probably that the taxable profits will be available against which those deductible temporary differences can be utilized.

Such deferred tax assets and liabilities are not recognized if the temporary difference arises from goodwill or from the initial recognition (other than in a business combination) of other assets and liabilities in a transaction that affects neither that taxable profit nor the accounting profit.

Deferred tax liabilities are recognized for taxable temporary differences associated with investments in subsidiaries and associates and interests in joint ventures, except where the company is able to control the reversal of the temporary difference and it is probably that the temporary difference will not reverse in the foreseeable future. Deferred tax assets arising from deductible temporary differences associated with such investments and interest are only recognized to the extent that it is probable that there will be sufficient taxable profits against which to utilize the benefits of the temporary differences and they are expected to reverse in the foreseeable future.

The carrying amount of deferred tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that the sufficient taxable profits will be available to allow all or part of the asset to be recovered.

Deferred tax assets and liabilities are measured at the tax rates that are expected to apply in the period in which the liability is settled or the asset realized, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period. The measurement of deferred tax liabilities and assets reflects the tax consequences that would follow from the manner in which the company expects, at the end of the reporting period, to recover or settle the carrying amount of its assets and liabilities.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset tax assets against tax liabilities and when they relate to income taxes levied by the same taxation authority and the company intends to settle its tax assets and liabilities on a net basis.

TELFERSCOT RESOURCES INC.
Notes to Consolidated Financial Statements
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(Stated in \$CAD)

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(j) Share based payments

The company offers a share option plan for its directors, officers, employees and consultants. Each tranche in an award is considered a separate award with its own vesting period and grant date fair value. The fair value of each tranche is measured using the Black-Scholes option pricing model based upon the number of awards expected to vest. Compensation expense is recognized upon vesting over the tranche's vesting period by increasing the reserve for share based payments. Any consideration paid on exercise of share options is credited to share capital.

For other equity settled transactions, the company measures goods or services received at their fair value, unless that fair value cannot be estimated reliably, in which case the company measures their value by reference to the fair value of the equity instruments granted.

(k) Loss per share

Basic loss per share amounts are calculated by dividing net loss for the reporting period attributable to common shareholders by the weighted average number of common shares outstanding during the period.

Diluted earnings per share amounts are calculated by dividing the net earnings attributable to common shareholders by the weighted average number of shares outstanding during the reporting period plus the weighted average number of shares that would be issued on the conversion of all the dilutive potential ordinary shares into common shares. Diluted loss per share amounts are not presented if anti-dilutive.

(l) Exploration expenditures

All acquisition and exploration costs, net of incidental revenues, are charged to operations in the period incurred until such time as it has been determined that a property has economically recoverable reserves, in which case subsequent exploration costs and the costs incurred to develop a property are capitalized into property, plant and equipment ("PPE"). On the commencement of commercial production, depletion of each mining property will be provided on a unit-of-production basis using estimated resources as the depletion base.

(m) Critical accounting estimates and judgements

The preparation of these consolidated financial statements requires management to make estimates and judgements about the future that affect the amounts recorded in the consolidated financial statements. These estimates and judgements are based on the company's experience and management's expectations about future events that are believed to be reasonable under the circumstances, and they are continually being evaluated based on new facts and experience. Actual results may differ from these estimates and judgements, which include the following:

TELFERSCOT RESOURCES INC.
Notes to Consolidated Financial Statements
Years ended December 31, 2013 and 2012
(Stated in \$CAD)

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(m) **Critical accounting estimates and judgements, continued**

- (i) **Investment in private company** - The determination of any possible impairment of an investment in a private company is difficult given the lack of any quoted market price, the absence of other transactional activity in the company's shares (other than that used to determine the initial fair value as detailed in note 6(c)) or any other means to reliably determine fair value. Any such determination of possible impairment will be based upon management's best estimates, which in turn are based upon available internal financial and operational information of the investee.
- (ii) **DRC liabilities** - There are difficulties and uncertainties that often arise when conducting business as a development stage enterprise in the DRC, as outlined in note 1(b). These uncertainties require significant judgements to ensure that liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations, are measured based on management's best estimate of the expenditure required to settle the obligation at the reporting date.
- (iii) **Functional currency** - The functional currency for the company and subsidiaries is the currency of the primary economic environment in which each operates: Canadian dollar and US dollar; determination of functional currency may require certain judgements to determine the primary economic environment; the company reconsiders the functional currency used when there is a change in events and conditions which determined the primary economic environment.

(n) **Accumulated other comprehensive income (loss)**

Comprehensive income (loss) is comprised of net income and other comprehensive income (loss). Certain gains and losses arising from changes in fair value are temporarily recorded outside the consolidated statements of loss in accumulated comprehensive income (loss) ("AOCI") as a separate component of shareholders' equity. Other comprehensive income (loss) may include any unrealized gains and losses on available-for-sale securities, foreign currency translation gains and losses on the currency used for presentation and changes in the fair market value of derivative instruments designated as cash flow hedges, all net of taxes.

Upon disposal or partial disposal of a foreign subsidiary (or loss of control) (*see note 6(b)*), any AOCI is reclassified out of equity to profit or loss.

(o) **Financial instruments**

Financial assets

Financial assets are classified as either financial assets at fair value through profit or loss ("FVTPL"), loans and receivables, held-to-maturity investments ("HTM"), or available-for-sale financial assets ("AFS"), as appropriate at initial recognition and, except in very limited circumstances, the classification is not changed subsequent to initial recognition. The classification is determined at initial recognition and depends on the nature and purpose of the financial asset. A financial asset is derecognized when its contractual rights to the asset's cash flows expire or if substantially all the risks and rewards of the asset are transferred.

TELFERSCOT RESOURCES INC.
Notes to Consolidated Financial Statements
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(Stated in \$CAD)

2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(o) Financial instruments, continued

Financial assets at FVTPL

A financial asset is classified as FVTPL when the financial asset is held for trading or it is designated upon initial recognition as an FVTPL. A financial asset is classified as HTM if (1) it has been acquired principally for the purpose of selling or repurchasing in the near term; (2) it is part of an identified portfolio of financial instruments that the company manages and has an actual pattern of short term profit taking; or (3) it is a derivative that is not designated and effective as a hedging instrument. Financial assets at FVTPL are carried in the consolidated statements of financial position at fair value with changes in fair value recognized in profit or loss. Transaction costs are expensed as incurred. The company has classified cash and term deposits as FVTPL.

Loans and receivables

Trade receivables, loans and other receivables that have fixed or determinable payments that are not quoted in an active market are classified as loans and receivables. Loans and receivables are initially recognized at fair value plus transaction costs that are directly attributable to their acquisition or issue, and are subsequently carried at amortized cost less losses for impairment. The impairment loss of receivables is based on a review of all outstanding amounts at the end of the reporting period. Bad debts are written off during the period in which they are identified. Amortized cost is calculated taking into account any discount or premium on acquisition and includes fees that are an integral part of the effective interest rate and transaction costs. Gains and losses are recognized in profit or loss when the loans and receivables are derecognized or impaired, as well as through the depreciation process. The company has classified accounts receivable and advances to DRC operations as loans and receivables.

AFS financial assets

Non derivative financial assets not included in the above categories are classified as AFS financial assets. They are carried at fair value with changes in fair value generally recognized in other comprehensive loss and accumulated in the AFS reserve. Impairment losses are recognized in profit or loss. Purchases and sales of AFS financial assets are recognized on settlement date with any change in fair value between trade date and settlement date being recognized in the AFS reserve. On sale, the cumulative gain or loss recognized in other comprehensive income is reclassified from accumulated other comprehensive income to profit or loss. The company has designated its investment in a private company as AFS.

TELFERSCOT RESOURCES INC.
Notes to Consolidated Financial Statements
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2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(o) **Financial instruments, continued**

Impairment of financial assets

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

For financial assets carried at amortized cost, the amount of the impairment is the difference between the asset's carrying amount and the present value of estimated future cash flows, discounted at the asset's original effective rate.

The carrying amount of all financial assets, excluding trade receivables, is directly reduced by the impairment loss. The carrying amount of trade receivables is reduced through the use of an allowance account. Associated allowances are written off when there is no realistic prospect of future recovery and all collateral has been realized or has been transferred to the company. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

A provision for impairment is made in relation to accounts receivable, and an impairment loss is recognized in profit or loss when there is objective evidence that the company will not be able to collect all of the amounts due under the original terms. With the exception of AFS equity instruments, if, in a subsequent period, the amount of impairment loss decreases and the decrease relates to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss. On the date of impairment reversal, the carrying amount of the financial asset cannot exceed its amortized cost had the impairment not been recognized.

Effective interest method

The effective interest method calculates the amortized cost of a financial instrument asset or liability and allocates interest income over the corresponding period. The effective interest rate is the rate that discounts estimated future cash receipts over the expected life of the financial asset or liability, or where appropriate, a shorter period. Income is recognized on an effective interest basis for debt instruments other than those financial assets classified as FVTPL.

Financial liabilities

Financial liabilities are classified as FVTPL, or other financial liabilities, as appropriate upon initial recognition. A financial liability is derecognized when the obligation under the liability is discharged, cancelled or expired.

Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs. Subsequent to the initial recognition, other financial liabilities are measured at amortized cost using the effective interest method. The company's other financial liabilities include accounts payables and accrued liabilities.

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2. SIGNIFICANT ACCOUNTING POLICIES, CONTINUED

(o) Financial instruments, continued

Financial liabilities are classified as FVTPL if they are acquired for the purpose of selling in the near term. This category includes derivative financial instruments (including separated embedded derivatives) unless they are designated as effective hedging instruments. Gains or losses on liabilities classified as FVTPL are recognized in profit or loss

Financial hierarchy

Financial instruments recorded at fair value on the consolidated statements of financial position are classified using 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:** valuation based on quoted prices (unadjusted) in active markets for identical assets or liabilities;
- Level 2:** valuation techniques based on 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:** valuation techniques using inputs for the asset or liability that are not based on observable market data (unobservable inputs).

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3. ADOPTION OF NEW AND REVISED IFRS STANDARDS AND INTERPRETATIONS

The company has reviewed new and revised accounting pronouncements, standards, amendments and related interpretations that have been issued but are not yet effective and determined that the following may have an impact on the company:

- (a) **IFRS 9: "Financial Instruments"** was issued by the IASB on November 12, 2009 and will replace IAS 39 "Financial Instruments: Recognition and Measurement". IFRS 9 replaces the multiple rules in IAS 39 with a single approach to determine whether a financial asset is measured at amortized cost or fair value and a new mixed measurement model for debt instruments having only two categories: amortized cost and fair value. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.
- (b) **IAS 32: "Financial Instruments - Offsetting Financial Assets and Financial Liabilities"**
 The amendment provides further clarification on the application of the offsetting requirements. The company will start the application of IAS 32 in the financial statements effective from January 1, 2014.

The company has not early adopted any of these standards, amendments and interpretations. However, management is currently assessing the impact of their application in the consolidated financial statements.

4. ACCOUNTS RECEIVABLE

| | 2013 | 2012 |
|-----------------------------------|-----------|-----------|
| Refundable HST ITC's | \$ 33,148 | \$ 39,019 |
| Accrued interest - cashable GIC's | - | 1,150 |
| | \$ 33,148 | \$ 40,169 |

5. ADVANCES TO DRC OPERATIONS

As at December 31, 2013, the company had no remaining unexpended mineral advances to its DRC operations. All such amounts were de-recognized at the time of the loss of control of KCC (*see note 6(c)*). Prior advances were to cover ongoing exploration activities.

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6. INVESTMENT IN PRIVATE COMPANY

As at December 31, 2013, the company holds a 7.4% interest in Kolwezi Copper Corp., a private company registered in the British Virgin Islands ("BVI"). The nature of the investment and the related accounting are detailed below:

| | 2013 | 2012 |
|---|-------------------|-------------|
| Fair value of investment on loss of control (Note 6(c)) | \$ 362,233 | \$ - |
| Share for share exchange (Note 6(d)) | (104,215) | - |
| Balance, end of year | \$ 258,018 | \$ - |

(a) Initial interest in Kolwezi Project

In July, 2011, the company acquired an initial interest of 17% in the Kolwezi Project, a copper cobalt exploration project located in the Kolwezi district of the Democratic Republic of Congo, held through Kolwezi Copper Corp. ("KCC"), a BVI company, through its acquisition of 1830953 Ontario Inc. ("Numco"). Telferscot had a right to increase its ownership in the exploration project to 60% through the expenditure of a further CAD \$4 million prior to September 2013. Exploration expenditures increased the company's ownership position in KCC to approximately 44.9% by December 31, 2012 and 47.4% by April 30, 2013, the date of cessation of funding.

(b) Investment in KCC by Ivory Mines Investments Limited

- (i) On June 4, 2013, the company announced it had entered into a binding agreement with a new investor, Ivory Mines Investments Limited ("Ivory"), to provide USD \$20,000,000 of funding to KCC to advance the Kolwezi Project.
- (ii) Under the terms of the agreement, Ivory is to provide a USD \$20,000,000 equity facility ("the facility") to fund future exploration. Monies are to be advanced from the facility quarterly (in advance) to fund the exploration budget. Ivory may withdraw the facility if exploration results do not meet expectations, subject to a requirement to fund a minimum of 4,000 meters of drilling.
- (iii) In return for provision of the facility, Ivory immediately received a 70% interest in KCC. In the event the facility is withdrawn prior to full funding of the USD \$20,000,000 facility, Ivory's interest will be reduced on a pro-rata basis.
- (iv) As part of the agreement, Telferscot has waived its rights to increase its ownership interest in the Kolwezi Project under the terms of its original agreement. Accordingly, the company will no longer be required to provide any funding for the project.
- (v) As a result of the Ivory agreement and related finders' fees, Telferscot's interest in KCC has been diluted to 10.4%.

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6. INVESTMENT IN PRIVATE COMPANY, CONTINUED

(c) Accounting for Ivory transaction

The reduction in ownership of KCC has resulted in effective loss of control of KCC, and has been accounted for under the loss of control provisions of IFRS 10.25. Accordingly, the company has:

- (i) derecognized the assets previously accounted for under "Advances to DRC operations",
- (ii) recognized the 10.4% of KCC retained by the company at the fair value implicit in the minimum drilling budget of \$2,440,450 underlying Ivory's investment into KCC, or \$362,233, and
- (iii) the gain of \$362,233 associated with the loss of control, net of remaining amounts under "Advances to DRC operations" of \$25,769, has been recognized as income in the current year.

Subsequent measurement of this financial asset will be at cost under the exceptions permitted under IAS 39.46 in that this investment (1) does not have a quoted market price in an active market and (2) its fair value cannot be reliably measured by any other means. This valuation will be reassessed as circumstances change or relevant information becomes available.

(d) Share for share exchange

With a new direction to be undertaken by the company as a result of the Ivory transaction, management approached the company's largest shareholder with a proposal whereby this shareholder would exchange its shares of the company for an equivalent percentage of the company's investment in KCC. This share exchange transaction, approved by shareholders at the company's Annual General Meeting in August, 2013 and completed on October 23, 2013, was as follows:

- (i) This shareholder held 12,237,200 common shares of the company, representing 28.8% of the 42,512,200 then-outstanding common shares.
- (ii) Prior to the share exchange transaction, the company held a 10.4% interest in KCC. The company transferred 28.8% of its 10.4% interest, or 3.00%, to this shareholder.
- (iii) In consideration for the transfer of this interest, the shareholder surrendered its entire shareholding position in Telferscot for cancellation, reducing the number of issued and outstanding common shares in Telferscot to 30,275,000.
- (iv) The carrying value of the company's investment in KCC was reduced by 28.8%, or \$104,215, with a corresponding reduction in share capital.
- (v) Subsequent to the share exchange transaction, the company now holds a 7.4% interest in KCC.

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6. INVESTMENT IN PRIVATE COMPANY, CONTINUED

(e) Details of KCC's exploration licenses in the DRC

(i) The basic terms of KCC's initial exploration license for the Kolwezi Project are as follows:

| | |
|------------------------|--|
| Exploration license: | PR 9090 |
| Permitted exploration: | Copper, cobalt and gold |
| Permit holder: | La Miniere du Congo SPRL |
| Effective date: | November 10, 2007 |
| Initial term: | 5 years (initial term ended November 9, 2012, renewed for a further 5 years to November 9, 2017) |
| Renewal: | Company has renewed the exploration license for the 1st of two five year periods. On each renewal, the holder of the exploration license relinquishes 50% of the perimeter |
| Area: | 47 carres (approximately 40 km sq), after 50% relinquishment on 1st license renewal |
| Location: | Less than 10 km east of Kolwezi, Katanga Province, DRC |

(ii) During 2012, KCC acquired an interest in 3 further exploration licenses (PR 12717, PR 12718 and PR 12719) adjacent to PR 9090 from the Mining Cadastre of the DRC. The terms of each license are similar to those of PR 9090 described above. Each exploration license carries an initial term of five years (expiring March, 2017) and two renewal options for an additional five years each. Upon each renewal, KCC would be required to relinquish 50% of the perimeter of the particular permit, which occurred with the first renewal of PR 9090. Permitted exploration includes copper, cobalt and gold. In order to maintain the validity of the license, the company must begin work within a year and pay annual area taxes, but there are no minimum work requirements.

7. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | <u>2013</u> | <u>2012</u> |
|------------------------|-------------------|------------------|
| Trade accounts payable | \$ 39,378 | \$ 25,082 |
| Accrued liabilities | <u>87,500</u> | <u>39,500</u> |
| | <u>\$ 126,878</u> | <u>\$ 64,582</u> |

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8. SHARE CAPITAL

Continuity schedules for the company's share capital and other equity instruments are disclosed in the consolidated statements of changes in shareholders' equity for the years ended December 31, 2013 and 2012. Details of changes to share capital during that period are as follows:

- (a) In November, 2012, the company closed a non-brokered private placement financing of 3,313,000 common shares at \$0.15 per share for total cash consideration of \$496,950.
- (b) In June, 2013, 2,000,000 shares were issued for proceeds of \$100,000 upon the exercise of 2,000,000 warrants at \$0.05 each (*see note 9(c)*).
- (c) In October, 2013, 12,237,200 shares were cancelled as part of the share for exchange described in note 6(d).

9. WARRANTS

| | <u>Warrants</u> | <u>Exercise price</u> | <u>Attributed value</u> |
|---|-------------------------|-----------------------|-------------------------|
| Balance - December 31, 2011 | 8,375,000 | \$ 0.06 | \$ 23,500 |
| July, 2011 warrants expired unexercised | <u>(375,000)</u> | <u>(0.25)</u> | <u>(7,500)</u> |
| Balance - December 31, 2012 | 8,000,000 | 0.05 | 16,000 |
| Exercised (Note 8(b)) | <u>(2,000,000)</u> | <u>0.05</u> | <u>(4,000)</u> |
| Balance - December 31, 2013 | <u>6,000,000</u> | <u>\$ 0.05</u> | <u>\$ 12,000</u> |

- (a) The company issued 8,000,000 warrants in July, 2010 that expire by January 15, 2015, and a further 375,000 warrants in July, 2011 that expired on May 1, 2012. Each warrant entitles the holder to purchase one common share.
- (b) The warrants issued in July, 2011 expired unexercised on May 1, 2012. The value attributed to them of \$7,500 was transferred to contributed surplus upon expiry.
- (c) In June, 2013, 2,000,000 warrants were exercised at \$0.05 each for proceeds of \$100,000, resulting in the issuance of 2,000,000 common shares (*see note 8(b)*). \$4,000 of the value originally attributed to the warrants was transferred to share capital upon exercise.

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10. STOCK OPTIONS AND SHARE BASED PAYMENTS

The company's shareholders have approved a stock option plan, the purposes of which are to (i) encourage common share ownership in the company for directors, officers, consultants and employees, (ii) provide additional incentive for superior performance by such individuals and (iii) enable the company to attract and retain valued directors, officers and employees.

Stock option activity for the period from January 1, 2012 to December 31, 2013 was as follows:

| | <u>2013</u> | | <u>2012</u> | |
|--|------------------|--|------------------|--|
| | <u>Options</u> | <u>Weighted average exercise price</u> | <u>Options</u> | <u>Weighted average exercise price</u> |
| Outstanding, beginning of year | 3,370,000 | \$ 0.20 | 1,200,000 | \$ 0.15 |
| Granted (Note 10(b)) | - | - | 185,000 | 0.25 |
| Granted (Note 10(b)) | - | - | 185,000 | 0.35 |
| Granted (Note 10(c)) | - | - | 1,900,000 | 0.15 |
| Expired unexercised | (370,000) | 0.30 | - | - |
| Cancelled upon cessation of position with company | (616,667) | 0.15 | (100,000) | 0.15 |
| Outstanding, end of year | <u>2,383,333</u> | <u>\$ 0.15</u> | <u>3,370,000</u> | <u>\$ 0.20</u> |

As at December 31, 2013, the issued and outstanding options to acquire common shares of the company were as follows:

| <u>Grant date</u> | <u>Number of options</u> | | <u>Exercise price (\$)</u> | <u>Expiry date</u> |
|-------------------|--------------------------|--------------------|--------------------------------|--------------------|
| | <u>Granted</u> | <u>Exercisable</u> | | |
| July 27, 2011 | 1,100,000 | 1,100,000 | 0.15 | July 27, 2016 |
| November 27, 2012 | 1,283,333 | 883,331 | 0.15 | November 27, 2017 |
| | <u>2,383,333</u> | <u>1,983,331</u> | <u>0.15</u> | |

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10. STOCK OPTIONS AND SHARE BASED PAYMENTS, CONTINUED

The details of each specific option grant are as follows:

(a) July 27, 2011 grant:

- (i) The Board of Directors approved the grant of 1,200,000 options exercisable at \$0.15 per option with a term of five years (expiring July 27, 2016). Of these options, 900,000 vested immediately and the remaining 300,000 vest as follows: 1/3 immediately, 1/3 after one year and 1/3 after two years. 100,000 of these options were forfeited during fiscal 2012 upon the expiration of the option holder's employment.
- (ii) The fair value of these options issued to officers, directors and consultants has been calculated with the Black-Scholes option pricing model. Using the assumptions of: (1) risk free interest rate of 1.3%, (2) expected volatility of 132%, (3) expected life of 2.59 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was \$0.11.

(b) April 8, 2012 grant:

As part of the agreement with CHF Investor Relations ("CHF") for the provision of investor relations and market-making services, the Board of Directors approved the grant of 370,000 stock options, of which 185,000 were exercisable at \$0.25 per common share and 185,000 at \$0.35 per common share. These options expired unexercised in July, 2013, resulting in the transfer of \$3,750 from the reserve for share based payments to contributed surplus.

(c) November 27, 2012 grant:

- (i) The Board of Directors approved the grant of 1,900,000 options exercisable at \$0.15 per option with a term of five years (expiring November 27, 2017). Of these options, 1/3 vest immediately, 1/3 after one year and 1/3 after two years.
- (ii) The fair value of these options issued to officers, directors and consultants has been calculated with the Black-Scholes option pricing model. Using the assumptions of: (1) risk free interest rate of 1.0%, (2) expected volatility of 104%, (3) expected life of 3.00 years, and (4) dividend yield of 0.0%, the fair value attributed to each option was \$0.02.
- (iii) In November, 2013, 616,667 of these options were forfeited upon cessation of the option holder's employment or membership on the Board of Directors, resulting in the transfer of \$5,499 from the reserve for share based payments to contributed surplus.

(d) Share based payments:

For options that have vested during the year ended December 31, 2013, share based payments of \$11,119 were recognized (2012 - \$35,354).

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11. LOSS PER SHARE

Basic and diluted loss per share is computed using the weighted average number of common shares outstanding. The weighted average number of common shares outstanding for the year ended December 31, 2013 was 39,338,592 (2012 - 37,516,885).

Diluted loss per share and the weighted average number of common shares exclude all potentially dilutive equity instruments since their effect is anti-dilutive. As at December 31, 2013, the following potentially dilutive equity instruments were outstanding: (1) 6,000,000 warrants (2012 - 8,000,000), and (2) 2,383,333 options (2012 - 3,370,000).

12. EXPLORATION EXPENDITURES

(a) Stephens Lake Project, Province of Manitoba

The Stephens Lake property is located in northern Manitoba, about 750 km north of Winnipeg, 175 km east-northeast of Thompson and centred about 20 km northwest of Gillam. The Stephens Lake mineral exploration license covers an area of approximately 12,000 hectares, has an initial term of five years (expiring February 5, 2013) and one renewal term for an additional five years. Stephens Lake is an early stage base metals exploration project. Exploration carried out by previous companies is limited to airborne geophysical surveys and one field program where several lines of soil sampling were performed.

For the anniversary period ended February 5, 2012, the company was obligated to an annual work requirement of CAD \$3.00 per hectare to be completed by the anniversary date. In lieu of actual work being performed, the company made a cash payment of CAD \$37,123 to the Province of Manitoba.

For the anniversary period ended February 5, 2013, the company was obligated to make its anniversary payment on the Stephens Lake Project to The Province of Manitoba in February, 2013 in lieu of work performed. However, given the financial position of the company, management elected not to make this payment. The license has been effectively terminated.

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12. EXPLORATION EXPENDITURES, CONTINUED

(b) Exploration expenditures (stated in \$CAD)

The table below reflects the company's mineral expenditures for the years ended December 31, 2013 and 2012. There have been no expenditures for the Kolwezi Project since April 30, 2013 as, further to the Ivory transaction (*see note 6(b)*), the company is no longer providing any funding.

| | 2013 | 2012 |
|------------------------------|------------|--------------|
| Kolwezi project | | |
| Drilling and surveying | \$ 115,266 | \$ 79,713 |
| Consulting | 67,043 | 186,176 |
| Fieldwork | 41,967 | 139,050 |
| Travel and accommodation | 35,886 | 205,071 |
| License and other fees | 6,922 | 44,278 |
| Administration | 7,844 | 45,182 |
| Acquisition | - | 361,416 |
| General | - | 2,836 |
| | 274,928 | 1,063,722 |
| Stephens Lake project | | |
| Exploration | - | 37,123 |
| | \$ 274,928 | \$ 1,100,845 |

13. INCOME TAXES

The following table reconciles the expected income tax recovery at the Canadian federal and provincial statutory rate of 26.5% (2012 - 26.5%) to the amount recognized in the consolidated statement of loss:

| | 2013 | 2012 |
|--|---------------------|-----------------------|
| Net loss before recovery of income taxes | \$ <u>(301,241)</u> | \$ <u>(1,557,322)</u> |
| Expected income tax liability (recovery) | \$ (79,830) | \$ (412,690) |
| Difference in foreign tax rates | - | (41,830) |
| Tax rate changes and other adjustments | 207,800 | (7,620) |
| Non-deductible expenses | 2,950 | 11,390 |
| Tax effect of de-recognition of KCC investment | (592,510) | - |
| Change in unrecognized deductible timing differences | 461,590 | 450,750 |
| | \$ - | \$ - |

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13. INCOME TAXES, CONTINUED

Unrecognized deferred tax assets

Deferred taxes are provided as a result of temporary differences that arise due to the differences between the income tax values and the carrying amount of assets and liabilities. Deferred tax assets have not been recognized in respect of the following deductible temporary differences:

| | <u>2013</u> | <u>2012</u> |
|---|-------------|-------------|
| | \$ | \$ |
| Investment in private company | 1,580,080 | - |
| Mineral properties | 381,060 | 106,130 |
| Canadian non-capital losses carried forward | 995,600 | 627,730 |
| Foreign non-capital losses carried forward | - | 1,372,600 |
| Net capital losses carried forward | 638,700 | - |

Canadian non-capital losses expire as noted below. They may be carried forward indefinitely, but can only be used to reduce capital gains. The remaining deductible temporary differences may be carried forward indefinitely. Deferred tax assets have not been recognized in respect of these items because it is not probable that future taxable profit will be available against which the group can utilize the benefits therefrom.

The company's Canadian non-capital losses expire as follows:

| | | |
|------|----|----------------|
| 2029 | \$ | 54,890 |
| 2030 | | 79,130 |
| 2031 | | 204,380 |
| 2032 | | 289,330 |
| 2033 | | 9,066 |
| | \$ | <u>636,796</u> |

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14. FINANCIAL RISK FACTORS

The company's activities expose it to a variety of financial risks: credit risk, liquidity risk, mineral property risk and currency risk. Risk management is carried out by the company's management team with guidance from the Audit Committee under policies approved by the Board of Directors. The Board of Directors also provides regular guidance for overall risk management.

(a) Credit risk

Credit risk is the risk of loss associated with a counterparty's inability to fulfill its payment obligations. The company's credit risk is primarily attributable to cash, term deposits and accounts receivable. Financial instruments included in accounts receivable consist of HST and accrued interest on the company's cashable term deposits.

As at December 31, 2013, cash of \$47,509 (2012 - cash and term deposits of \$468,360) is held with reputable financial institutions from which management believes the risk of loss to be minimal. As accounts receivable consists of refundable HST ITC's and accrued interest on cashable GIC's, management believes that its credit risk is negligible.

(b) 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 (*see note 1(c)*). The company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at December 31, 2013, the company had a working capital deficiency of \$42,969 (2012 - surplus of \$488,669). All of the company's financial liabilities have contractual maturities of less than 90 days and are subject to normal trade terms.

(c) Mineral property risk

The company's operations in the DRC, held through its interest in KCC, are exposed to various levels of political risk and uncertainties, including political and economic instability, government regulations relating to exploration and mining, military repression and civil disorder, all or any of which may have a material adverse impact on the company's activities or may result in impairment in, or loss of, part or all of the company's assets.

(d) Sensitivity analysis

The company operates in Canada and has a presentation and functional currency of CAD dollars. The company maintains USD denominated bank accounts in Canada, but no longer actively operates in the DRC where the functional currency was the US dollar. It is therefore subject to foreign exchange fluctuations against the CAD dollar on its USD denominated cash in Canada. Sensitivity to a plus or minus 10% change in the foreign exchange rate would affect net comprehensive income by approximately \$4,200.

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14. FINANCIAL RISK FACTORS, CONTINUED

(e) Fair value hierarchy

The following summarizes the methods and assumptions used in estimating the fair value of the company's financial instruments where measurement is required. The fair value of short-term financial instruments, financial instruments classified as loans and receivables and other financial liabilities approximate their carrying amounts due to their short term maturities. Fair value amounts represent point in time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of significant judgment. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the statement of financial position, have been prioritized into three levels as per their fair value hierarchy.

Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities. Level two includes inputs that are observable other than quoted prices included in level one. Level three includes inputs that are not based on observable market data. The fair value of the company's financial instruments where financial measurement is required are as follows:

| | <u>2013</u> | <u>2012</u> |
|------------------|---------------|-------------|
| | \$ | \$ |
| Level one | | |
| Cash | 47,509 | 315,110 |
| Term deposits | - | 153,250 |

15. CAPITAL MANAGEMENT

The company's objective when managing capital is to maintain adequate levels of funding to maintain head office corporate and administrative functions. The company considers its capital to be its shareholders' equity. The company manages its capital structure in an effort to provide sufficient funding for its development projects. Funds are primarily secured through equity capital raised by way of private placements and exercise of warrants.

There can be no assurances that the company will be able to continue raising equity capital in this manner. The company's Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the company's management to sustain future development of the business. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the company, is reasonable. There have been no changes in the company's approach to capital management since the year-end. The company is not subject to externally imposed capital requirements.

16. SEGMENTED INFORMATION

The company conducts its business in a single operating segment consisting of the exploration activities in the DRC and the Stephens Lake Project. All of the expenditures for the year ended December 31, 2013 are related to the DRC operations as the Stephens Lake license has effectively been terminated (*see note 12(a)*).

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17. RELATED PARTY TRANSACTIONS (INCLUDING KEY MANAGEMENT COMPENSATION)

- (a) Telferscot is billed a monthly fee of \$17,500 by a company controlled by two of the directors, one of whom is also an officer. The monthly fee is for management and administrative services, including monthly compensation for the CFO of \$3,500, corporate secretary, office rent and regular administrative functions. During the year ended December 31, 2013, the company incurred total fees of \$210,000 (2012 - \$210,000). Since June, 2013, Telferscot has only been paying \$10,000 per month against that fee, such that as at December 31, 2013, accounts payable and accrued liabilities includes \$52,500 (2012 - \$Nil) in respect of such fees (*see also note 18*).
- (b) In April, 2012, a company owned by the CFO was paid fees of \$8,000 for services incremental to the 2011 audit. This amount was approved by the Board of Directors.
- (c) The company's former president and COO, who was also a director, had a consulting agreement that paid USD \$12,500 per month from July, 2012 onward (USD \$10,000 per month prior to that). Fees paid under the terms of this agreement for the year ended December 31, 2013 were \$50,790 (2012 - \$134,946). Payments under the agreement ceased after April, 2013 upon Ivory's financing agreement (*see note 6(b)*).
- (d) Starting in the fourth quarter of fiscal 2012, the Board of Directors approved quarterly fees to each independent director of \$1,500, or \$4,500 in total. Fees recorded for the year ended December 31, 2013 totalled \$10,500 (2012 - \$4,500), after reversal of a provision of \$4,500 for a departed director. As at December 31, 2013, accounts payable and accrued liabilities includes \$15,000 (2012 - \$4,500) in respect of such fees.
- (e) Due to time restrictions and the fact that the DRC Corporate Registry was not in a position to register new corporations on a timely basis, the company obtained the agreement of its DRC project partners, one of whom is an officer and director of the company, to make the application on a timely basis for a new license in the Kolwezi region of Katanga Province, DRC on the company's behalf through a nominee corporation of their own. An amount of USD \$50,000 was advanced by Telferscot to this nominee corporation in December, 2012.

Due to funding constraints reached by the company in the first quarter of 2013, the needed funds to close the purchase of the new license are currently not available. Given the lack of assets in the nominee corporation and the non-closure of the license acquisition, the loan to the nominee corporation of USD \$50,000 has become impaired. Company management is attempting to obtain the necessary funds to complete the acquisition through ongoing discussions with current shareholders and outside parties. There can be no assurance that management will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the company.

18. COMMITMENT

The company has a contract for management and administrative services (*see note 17(a)*). It is billed on a monthly basis with a six-month notice period. Effective January 1, 2014, the monthly rate was decreased from \$17,500 to \$10,000.