AFRASIA MINERAL FIELDS INC.

Financial Statements

May 31, 2012

Expressed in Canadian Dollars

AFRASIA MINERAL FIELDS INC.

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Afrasia Mineral Fields Inc.

We have audited the accompanying financial statements of Afrasia Mineral Fields Inc., which comprise the statements of financial position as at May 31, 2012 and 2011 and June 1, 2010 and the statements of comprehensive loss, changes in equity and cash flows for the years ended May 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

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

Auditors' Responsibility

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

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the 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 in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these financial statements present fairly, in all material respects, the financial position of Afrasia Mineral Fields Inc. as at May 31, 2012 and 2011 and June 1, 2010 and its financial performance and its cash flows for the years ended May 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter

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

"DAVIDSON & COMPANY LLP"

Vancouver, Canada Chartered Accountants

September 24, 2012

AFRASIA MINERAL FIELDS INC.

Statements of Financial Position

	Note	**May 31, 2012**	May 31, 2011	June 1, 2010
Assets				
Current assets				
Cash and cash equivalents	3	**$ 104,211**	$ 227,806	$ 132,203
Receivables	4	**9,348**	6,427	6,893
Prepaids		–	–	5,000
Advances receivable		–	–	591,561
		113,559	234,233	735,657
Property and equipment	5	**4,568**	984	1,440
		$ 118,127	$ 235,217	$ 737,097
Liabilities and Shareholders' Equity				
Current liabilities				
Trade payables and accrued liabilities	6	**$ 16,327**	$ 16,622	$ 121,457
Due to related parties	8	**43,120**	131	1,264
Loans payable		–	–	152,000
		59,447	16,753	274,721
Shareholders' Equity				
Share capital	7	**8,349,105**	8,349,105	8,318,291
Share subscriptions	7	–	–	117,000
Reserves	7	**204,669**	204,669	204,669
Deficit		**(8,495,094)**	(8,335,310)	(8,177,584)
		58,680	218,464	462,376
		$ 118,127	$ 235,217	$ 737,097

Nature and continuance of operations (Note 1)

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

Approved on behalf of the board of directors:

"Praveen Varshney"
Director

"Peeyush Varshney"
Director

AFRASIA MINERAL FIELDS INC.

Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Note	Share Capital					
		Number of Shares	Amount	Share Subscriptions	Reserves	Deficit	Total Equity
Balance, June 1, 2010		19,826,663	$ 8,318,291	$ 117,000	$ 204,669	$ (8,177,584)	$ 462,376
Net loss for the year		–	–	–	–	(157,726)	(157,726)
Shares issued on debt settlement	7	200,000	33,000	–	–	–	33,000
Refund of share subscriptions	7	–	–	(117,000)	–	–	(117,000)
Share issuance costs	7	–	(2,186)	–	–	–	(2,186)
Balance, May 31, 2011		20,026,663	8,349,105	–	204,669	(8,335,310)	218,464
Net loss for the year		–	–	–	–	(159,784)	(159,784)
Balance, May 31, 2012		**20,026,663**	**$ 8,349,105**	**$ –**	**$ 204,669**	**$ (8,495,094)**	**$ 58,680**

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

AFRASIA MINERAL FIELDS INC.

Statements of Comprehensive Loss
For the years ended May 31,

	Note	2012	2011
Expenses:			
Amortization	5	$ **1,074**	$ 456
Consulting fees		**10,687**	-
Management fees	8	**30,000**	30,000
Office and administration	8	**44,144**	52,979
Professional fees		**14,905**	29,764
Regulatory and transfer agent fees		**10,839**	11,414
Rent		**25,541**	22,792
Travel and promotion		**17,870**	4,842
Wages and benefits		**5,999**	4,753
Net loss for the year		**(161,059)**	(157,000)
Other items:			
Interest income		**1,275**	1,087
Other expenses		**-**	(1,813)
		1,275	(726)
Net and comprehensive loss		$ **(159,784)**	$ (157,726)
Loss per common share Basic and diluted		$ **(0.008)**	$ (0.008)
Weighted average number of common shares outstanding		**20,026,663**	19,911,047

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

AFRASIA MINERAL FIELDS INC.

Statements of Cash Flows
For the years ended May 31,

	Note		**2012**		2011
Cash provided by (used in):					
Operations:					
Net loss for the year		**$**	**(159,784)**	$	(157,726)
Items not involving cash:					
Amortization	5		**1,074**		456
Changes in non-cash operating working capital items:					
Receivables			**(2,921)**		466
Prepaid expenses			**-**		5,000
Accounts payable and accrued liabilities			**(295)**		(71,835)
Due to related parties			**42,989**		(1,133)
			(118,937)		(224,772)
Investing:					
Advances receivable, net			**-**		591,561
Acquisition of property and equipment	5		**(4,658)**		-
			(4,658)		591,561
Financing:					
Loans payable			**-**		(152,000)
Proceeds on share issuance, net of share issuance costs	7		**-**		(2,186)
Share subscriptions	7		**-**		(117,000)
			-		(271,186)
Increase (decrease) in cash and cash equivalents			**(123,595)**		95,603
Cash and cash equivalents, beginning			**227,806**		132,203
Cash and cash equivalents, ending		**$**	**104,211**	$	227,806
Supplemental cash flow information:					
Shares issued on the settlement of the debt	7	**$**	**–**	$	33,000
Interest paid		**$**	**–**	$	–
Income taxes paid		**$**	**–**	$	–

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Afrasia Mineral Fields Inc. (the "Company") was incorporated on June 24, 1986 under the laws of British Columbia. The Company was listed on the TSX Venture Exchange ("TSX-V") under the symbol "AFS" and on September 29, 2008 the Company's listing was transferred from the TSX-V to the NEX board of the TSX-V. Effectively, the trading symbol for the Company changed from "AFS" to AFS.H".

The Company's head office, principal address and records office is Suite 2050-1055 West Georgia Street, PO Box 11121, Royal Centre, Vancouver, BC V6E 3P3. The registered office is Suite 700-595 Burrard St., PO Box 49290, Vancouver, BC V7X 1S8.

On February 25, 2010, the Company entered into a Definitive Agreement (the "Agreement") to purchase 100% of the shares of 0830438 BC Ltd. (the "Seller"), a private company incorporated in BC. The Seller's wholly-owned US subsidiary owns the subsurface mining rights and is leasing those surface mining rights necessary to explore, rebuild and operate the Oracle Ridge Project located near Tucson, Arizona.

On August 12, 2010, the Company terminated the Agreement by mutual consent of the parties. As a result of the termination, the Company wrote-off $121,970 in costs related to the Agreement consisting mainly of regulatory, legal and audit costs.

In addition, the Company advanced a total of $600,000 to the Seller pursuant to the terms of the Agreement, which consisted of acquisition costs and travel expenses related to the Oracle Ridge Project, as well as regulatory, legal and audit costs related to the Agreement. Upon termination of the Agreement, the Seller fully repaid the Company the advanced amounts.

The Company is continuing to identify, evaluate and negotiate business opportunities in the resource industry.

These financial statements have been prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. The continuing operations of the Company are dependent upon its ability to raise adequate financing and to commence profitable operations in the future. To date, the Company has not generated any significant revenues and has not raised funds in the last twelve months. During the year ended May 31, 2012, the Company incurred a net loss of $159,784 (2011 - $157,726). These uncertainties may cast significant doubt upon the company's ability to continue as a going concern.

These financial statements do not include any adjustments relating to the recoverability and classification of asset and liabilities which might be necessary should the Company be unable to continue in existence.

The Company has never paid dividends.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

The financial statements were authorized for issue on September 24, 2012 by the directors of the Company.

Statement of compliance and conversion to International Financial Reporting Standards ("IFRS")

These financial statements, including comparatives, have been prepared in accordance with International Financial Reporting Standards ("IFRS") as adopted by Canada on January 1, 2011. This represents the Company's application of IFRS as at and for the year ended May 31, 2012, including the 2011 comparative year. The financial statements have been prepared in accordance with IFRS 1, "First-time Adoption of International Financial Reporting Standards" as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The policies summarized below have been applied retrospectively and consistently except where specific exemptions permitted an alternative treatment upon transition to IFRS in accordance with IFRS 1. Prior to June 1, 2011, the Company prepared its financial statements in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). The disclosures concerning the transition from pre-changeover Canadian GAAP to IFRS are provided in Note 12.

Basis of measurement

The financial statements of the Company have been prepared on an accrual basis except for cash flow information and are based on historical costs, modified where applicable. The financial statements are presented in Canadian dollars unless otherwise noted.

Significant accounting judgements, estimates and assumptions

The preparation of financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and the reported amount of assets and liabilities, income and expenses. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates.

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

i) The Black-Scholes stock price valuation model used to value warrants and stock options requires the input of highly subjective assumptions regarding stock price volatility, the expected lives of warrants and stock options and expected forfeitures.

ii) The recognition of deferred tax assets and liabilities.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Significant accounting judgements, estimates and assumptions (cont'd)

iii) The recoverability of receivables and prepayments those are included in the statements of financial position.

iv) The estimated useful lives of equipment which are included in the statements of financial position and the related depreciation included in the statements of operations and comprehensive loss.

Financial instruments

All financial instruments are initially recognized at fair value on the statement of financial position. The Company has classified each financial instrument into one of the following categories: (1) financial assets or liabilities at fair value through profit or loss ("FVTPL"), (2) loans and receivables, (3) financial assets available-for-sale, (4) financial assets held-to maturity, and (5) other financial liabilities. Subsequent measurement of financial instruments is based on their classification.

Financial assets and liabilities at FVTPL are subsequently measured at fair value with changes in those fair values recognized in the statement of operations. Financial assets "available-for-sale" are subsequently measured at fair value with changes in fair value recognized in other comprehensive income (loss), net of tax. Financial assets and liabilities "held-to-maturity", "loans and receivables", and "other financial liabilities" are subsequently measured at amortized cost using the effective interest method.

The Company has classified its cash and cash equivalents as fair value through profit and loss. The Company's receivables are classified as loans and receivables. The Company's accounts payable and accrued liabilities and due to related parties are classified as other financial liabilities.

Financial instruments measured at fair value are classified into one of three levels in a fair value hierarchy that prioritizes the input to valuation techniques used to measure fair value as follows:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities
Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and
Level 3 – inputs for the asset or liability that are not based on observable market date (unobservable inputs).

See Note 10 for relevant disclosures.

Cash and cash equivalents

The Company considers cash and cash equivalents to include amounts held in banks and highly liquid short-term investments with terms to maturity at the point of purchase greater than 90 days, but not more than 1 year, and that are readily convertible to contracted amounts of cash.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Equipment

Equipment is recorded at cost and are amortized over their estimated useful lives at the following rates:

Computer	–	45%	declining balance method
Furniture & equipment	–	20%	declining balance method
Leasehold improvements	–	5 years	straight line method

In the year of acquisition, only one-half of the amortization is recorded.

Where an item of equipment comprises significant components with different useful lives, the components are accounted for as separate items of plant and equipment. The cost of replacing part of an item within equipment is recognized when the cost is incurred if it is probable that the future economic benefits will flow to the group and the cost of the item can be measured reliably. The carrying amount of the part that has been replaced is expensed. All other costs are recognized as an expense as incurred.

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss in the consolidated statement of comprehensive income or loss.

Impairment of long-lived assets

An impairment loss is recognized when the carrying amount of an asset, or its cash generating unit ("CGU"), exceeds its recoverable amount. A CGU is the smallest identifiable group of assets that generates cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Impairment losses are recognized in profit and loss for the period. Impairment losses recognized in respect of CGUs are allocated first to reduce the carrying amount of any goodwill allocated to CGUs and then to reduce the carrying amount of the other assets in the unit on a pro-rata basis.

The recoverable amount of assets is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years.

Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Units

The proceeds from the issue of units is allocated between common shares and common share purchase warrants based on the residual value method. Under this method, the proceeds are allocated to capital stock based on the fair value of the common shares and any residual value is allocated to common share purchase warrants.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event, and it is probably that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Related party transactions

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

Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and service providers. The Company recognizes share-based compensation expense based on the estimated fair value of the options. A fair value measurement is made for each vesting installment within each option grant and is determined using the Black-Scholes option-pricing model. The fair value of the options is recognized over the vesting period of the options granted as both share-based compensation expense and equity reserve. This includes a forfeiture estimate, which is revised for actual forfeitures in subsequent periods. The equity reserve account is subsequently reduced if the options are exercised and the amount initially recorded is then credited to share capital. The fair value of share-based payments to non-employees is measured at the date the goods or services are received, at either the fair value of the goods or services received or the fair value of the equity instruments issued using the Black-Scholes option pricing model.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Income taxes

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

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

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

Loss per share

Loss per share is computed by dividing net loss available to common shareholders by the weighted average number of shares outstanding during the reporting period. Diluted loss per share is computed similar to basic loss per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

Standards and interpretations issued but not yet effective

At the date of authorization of these financial statements, the following Standards were issued but not yet effective:

Standards	Description of Changes	Effective Date
IFRS 9	*Financial Instruments* – New Standards that is part of a three phase project to replace IAS 39 Financial Instruments: Recognition and Measurement.	Effective for annual periods beginning on or after January 1, 2015.
IFRS 10	*Consolidated Financial Statements*- Establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one of more other entities.	Effective for annual periods beginning on or after January 1, 2013.

(Expressed in Canadian Dollars)

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (cont'd)

Standards and interpretations issued but not yet effective (cont'd)

Standards	Description of Changes	Effective Date
IFRS 11	*Joint Arrangements*- Provides for a more realistic reflection of joint arrangements by focusing on the rights and obligations of the arrangements, rather than its legal form.	Effective for annual periods beginning on or after January 1, 2013.
IFRS 12	*Disclosure of Interests in Other Entities*- New Standard on disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.	Effective for annual periods beginning on or after January 1, 2013.
IFRS 13	*Fair Value Measurement* – New Standard to provide consistency among the IFRS that deal with fair value measurements.	Effective for annual periods beginning on or after January 1, 2013.
IAS 1	*Presentation of Financial Statements* – Amendments regarding presentation of items of other comprehensive income.	Effective for annual periods beginning on or after July 1, 2012.

The impact of the initial application of the Standards listed above is not known or reasonably estimable at the time of authorization of these financial statements.

3. CASH AND CASH EQUIVALENTS

Cash and cash equivalents are comprised of:

	May 31, 2012	May 31, 2011	June 1, 2010
Bank deposits	$ 4,211	$ 17,806	$ 20,203
Guaranteed investment certificate	100,000	210,000	–
Funds held in trust	–	–	112,000
	$ 104,211	$ 227,806	$ 132,203

Cash equivalents consists of a highly liquid Canadian dollar denominated guaranteed investment certificate ("GIC"), with a term to maturity at the point of purchase greater than 90 days, but not more than 1 year. The GIC earns a variable annual interest of approximately 0.95%, allowed for early redemption after the first 30 days of investment and matures on December 6, 2012. The counter-party is a financial institution.

As at May 31, 2012, the Company accrued $456 (May 31, 2011 - $1,067; June 1, 2010 - $Nil) in interest receivable on the GIC. This amount is included in receivables (Note 4).

(Expressed in Canadian Dollars)

3. CASH AND CASH EQUIVALENTS (cont'd)

Funds held in trust at June 1, 2010 represented share subscriptions received in connection with a non-brokered private placement that was cancelled due to the termination of the Agreement (Note 1).

4. RECEIVABLES

	May 31, 2012	May 31, 2011	June 1, 2010
Harmonized Sales Tax credits	$ 8,492	$ 5,003	$ 6,893
Interest accrued on GIC (Note 3)	456	1,067	–
Other receivables (Note 8(c))	400	357	–
	$ 9,348	$ 6,427	$ 6,893

5. PROPERTY AND EQUIPMENT

	Computer	Equipment	Furniture	Leasehold improvements	Total
Cost:					
At June 1, 2010 and May 31, 2011	$ –	$ 5,063	$ 1,772	$ 2,522	$ 9,357
Acquisition	2,350	–	–	2,308	4,658
Disposal	–	–	–	(2,522)	(2,522)
At May 31, 2012	2,350	5,063	1,772	2,308	**11,493**
Amortization:					
At June 1, 2010	–	4,356	1,249	2,312	7,917
Amortization	–	141	105	210	456
At May 31, 2011	–	4,497	1,354	2,522	8,373
Amortization	646	113	84	231	1,074
Eliminated on disposal	–	–	–	(2,522)	(2,522)
At May 31, 2012	646	4,610	1,438	231	**6,925**
Net book value:					
At June 1, 2010	$ –	$ 707	$ 523	$ 210	$ 1,440
At May 31, 2011	$ –	$ 566	$ 418	$ –	$ 984
At May 31, 2012	$ 1,704	$ 453	$ 334	$ 2,077	**$ 4,568**

(Expressed in Canadian Dollars)

6. TRADE PAYABLES AND ACCRUED LIABILITIES

	May 31, 2012	May 31, 2011	June 1, 2010
Trade payables	$ 199	$ 609	$ 5,365
Accrued liabilities	16,128	16,013	116,092
	$ 16,327	$ 16,622	$ 121,457

7. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value.

(b) Issued – common shares

There were no share issuances during the year ended May 31, 2012.

During the year ended May 31, 2011, the Company:

(i) issued 200,000 units at a fair value of $0.165 per unit on the settlement of outstanding debt of $33,000 for legal services provided to the Company in fiscal 2010 in connection with the terminated Agreement (Note 1). Each unit consisted of one common share of the Company and one transferable share purchase warrant entitling the creditor to purchase an additional common share for a period of 12 months from the issue date at a price of $0.22 per share. The Company has not allocated a fair value to the warrants issued to the creditor.

(ii) refunded $117,000 in share subscriptions received in connection to a non-brokered private placement at $0.50 per unit, which was cancelled due to the termination of the Agreement (Note 1).

(iii) recorded $2,186 in share issuance costs relating to a non-brokered private placement completed in fiscal 2010.

(c) Share options

The Company maintains a 10% rolling share option plan (the "Plan") that enables management to grant options to directors, officers, employees and other service providers. The Company follows the Exchange policies where the number of common shares which may be issued pursuant to options granted under the Plan may not exceed 10% of the issued and outstanding shares of the Company from time to time at the date of granting of options. Each option agreement with the grantee sets forth, among other things, the number of options granted, the exercise price and the vesting conditions of the options.

There were no options outstanding at May 31, 2012.

(Expressed in Canadian Dollars)

7. SHARE CAPITAL (cont'd)

(c) Share options (cont'd)

A summary of the status of the options outstanding is as follows:

	May 31, 2012			May 31, 2011		
	Number of options		Weighted average exercise price	Number of options		Weighted average exercise price
Options outstanding, beginning of year	214,000	$	0.35	573,000	$	0.36
Expired	(214,000)		(0.35)	(359,000)		(0.36)
Options outstanding and exercisable, end of year	–	$	–	214,000	$	0.35

There were no options granted during the years ended May 31, 2012 and 2011.

(d) Warrants

There were no share purchase warrants outstanding at May 31, 2012.

A summary of the status of warrants outstanding is as follows:

	May 31, 2012			May 31, 2011		
	Number of warrants		Weighted average exercise price	Number of warrants		Weighted average exercise price
Warrants outstanding, beginning of year	200,000	$	0.22	1,000,000	$	0.35
Expired	(200,000)		(0.22)	(1,000,000)		(0.35)
Issued on debt settlement (Note 7(b)(i))	–		–	200,000		0.22
Warrants outstanding and exercisable, end of year	–	$	–	200,000	$	0.22

(Expressed in Canadian Dollars)

8. RELATED PARTIES TRANSACTIONS

Key management personnel are persons responsible for planning, directing and controlling activities of an entity, and include executive and non-executive directors and officers. Key management personal compensation comprised:

	2012	2011
Administrative services (a)	$ 36,000	$ 36,000
Management services (a)	30,000	30,000
	$ 66,000	$ 66,000

(a) On February 1, 2009, the Company entered into a management and administrative agreement with Varshney Capital Corp. (“VCC”), a company controlled by two common directors, whereby the Company agreed to pay management and administrative fees of $2,500 and $3,000 per month, respectively.

During the year ended May 31, 2012, the Company incurred $30,000 (2011 – $30,000) for management fees and $36,000 (2011 – $36,000) for administrative fees to VCC.

As at May 31, 2012, $43,120 (May 31, 2011 - $Nil) was due to VCC for management and administrative fees.

(b) As at May 31, 2012, $Nil (May 31, 2011 - $131) was due to a director of the Company.

(c) As at May 31, 2012, a total of $400 (2011 - $357) was due from companies with directors and officers in common. The amounts resulted from recovery of expenses, were included in accounts receivable and repaid subsequent to May 31, 2012.

9. INCOME TAXES

The reconciliation of the combined Canadian federal and provincial income tax rate to the income tax recovery presented in the accompanying stated of comprehensive loss is provided below:

Years ended May 31	2012	2011
Accounting Profit (Loss) before income taxes	$(159,784)	$(157,726)
Combined federal and provincial statutory income tax rate	25.9%	27%
Income tax expense (recovery) at statutory tax rates	$ (41,344)	$ (41,797)
Non-deductible expenditures	244	310
Change in statutory rates and tax credits	11,390	(5,468)
Changes in unrecognized deductible temporary differences and other	29,710	46,955
Total	$ -	$ -

(Expressed in Canadian Dollars)

9. INCOME TAXES (cont'd)

The Canadian income tax rate declined during the year due to changes in the law that reduced corporate income tax rates in Canada.

Significant components of deferred tax assets that have not been set up are as follows:

As of May 31,	2012	2011
Share issue costs	$ 2,000	$ 3,000
Non-Capital losses	361,000	338,000
Capital assets	5,000	5,000
Mineral properties	188,000	200,000
Total	$ 556,000	$ 546,000

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

Significant components of deductible and taxable temporary differences, unused tax losses and unused tax credits that have not been included on the consolidated statements of financial position are as follows:

	As of May 31,			
	2012	Expiry dates	2011	Expiry dates
Share issue costs	$ 2,000	2013 to 2015	$ 3,000	2012 to 2015
Non-Capital losses	361,000	2014 to 2031	338,000	2014 to 2030
Capital assets	5,000	Not applicable	5,000	Not applicable
Mineral properties	188,000	Not applicable	200,000	Not applicable

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

At May 31, 2012 and 2011, the Company's financial instruments consist of cash and cash equivalents, receivables, trade payables and accrued liabilities and due to related parties. There were no transfers between levels during the year ended May 31, 2012.

Cash and cash equivalents are carried at fair value using a Level 1 fair value measurement. The carrying value of receivables and trade payables and accrued liabilities approximate their fair value because of the short-term nature of these instruments or their ability of prompt liquidation.

10. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (cont'd)

Financial risk management

The Company is exposed in varying degrees to a variety of financial instrument related risks.

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash and cash equivalents. As a majority of the Company's cash is held by a Canadian bank, there is a concentration of credit risk with one bank in Canada. While there is concentration of risk holding all funds with one institution, this risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies. As at May 31, 2012, the Company has cash on hand of $4,211 and short-term investment of $100,000. Management assesses credit risk of cash and short-term investment as low.

The Company's secondary exposure to credit risk is on its receivables. This risk is minimal as receivables consist of refundable government sales taxes of $8,492, amounts due from related parties of $400 and interest accrued on the GIC of $456.

Currency risk

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company operates only in Canada and is therefore not exposed to foreign exchange risk arising from transactions denominated in a foreign currency.

Interest rate risk

Interest rate risk is the risk that an investment's value will change due to a change in the level of interest rates. The Company is exposed to interest rate risk as its bank account and the GIC earn interest income at variable rates and are subject to the movement in interest rates. Management considers the interest rate to be minimal.

Liquidity risk

Liquidity risk arises through the excess of financial obligations over available financial assets due at any point in time. The Company's objective in managing liquidity risk is to maintain sufficient readily available reserves in order to meet its liquidity requirements at any point in time. The Company achieves this by maintaining sufficient cash and seeking equity financing when needed. As at May 31, 2012, the Company had cash and cash equivalents on hand of $104,211, which is sufficient to cover its current liabilities of $59,447. However, significant additional funding will be required to fund operations for the next 12 months and in the future. There is a risk of failure to raise adequate capital when needed.

11. CAPITAL DISCLOSURE

Management's objective is to manage its capital to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern through the optimization of its capital structure. The capital structure consists of share capital and working capital.

In order to achieve this objective, management makes adjustments to it in light of changes in economic conditions and risk characteristics of the underlying assets. To maintain or adjust capital structure, management may invest its excess cash in interest bearing accounts of Canadian chartered banks and/or raise additional funds externally as needed. The Company is not subject to externally imposed capital requirements.

12. TRANSITION TO IFRS

These financial statements for the year ended May 31, 2012 are the first annual financial statements that comply with IFRS, and these financial statements were prepared as describe in Note 2, including the application of IFRS1, First-time Adoption of International Financial Reporting Standards. IFRS requires an entity to adopt IFRS in its first annual financial statements prepared under IFRS by making an explicit and unreserved statement of compliance to IFRS. The Company has made this statement in Note 2.

IFRS 1 requires that comparative financial information be provided. As a result, the first date at which the Company has applied IFRS was June 1, 2010 (the "transition date").

IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be May 31, 2011. However, it also provides for certain optional exemptions and certain mandatory exceptions from full retrospective application for first time IFRS adoption.

Mandatory Exceptions

The Company has applied the following mandatory exception to its opening statement of financial position dated June 1, 2010:

Estimates

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of June 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

Adjustment on transition to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flow for comparative periods. The Company's adoption of IFRS did not have a significant impact on equity, loss and comprehensive loss and operating, investing or financing cash flows in the prior periods. As a result there were no adjustments to the statement of financial position, operations and cash flows.