# REMSTAR RESOURCES LTD.

**(An Exploration Stage Company)**

**CONSOLIDATED FINANCIAL STATEMENTS**

**Years ended July 31, 2011 and 2010**

**(Expressed in Canadian Dollars)**

To the Shareholders of Remstar Resources Ltd.:

Management is responsible for the preparation and presentation of the accompanying consolidated financial statements, including responsibility for significant accounting judgments and estimates in accordance with Canadian generally accepted accounting principles and ensuring that all information in the annual report is consistent with the statements. This responsibility includes selecting appropriate accounting principles and methods, and making decisions affecting the measurement of transactions in which objective judgment is required.

In discharging its responsibilities for the integrity and fairness of the consolidated financial statements, management designs and maintains the necessary accounting systems and related internal controls to provide reasonable assurance that transactions are authorized, assets are safeguarded and financial records are properly maintained to provide reliable information for the preparation of consolidated financial statements.

The Board of Directors and the Audit Committee is composed primarily of Directors who are neither management nor employees of Remstar Resources Ltd. The Board is responsible for overseeing management in the performance of its financial reporting responsibilities, and for approving the financial information included in the annual report. The Audit Committee has the responsibility of meeting with management and external auditors to discuss the internal controls over the financial reporting process, auditing matters and financial reporting issues. The Committee is also responsible for recommending the appointment of Remstar Resources Ltd.'s external auditors.

MNP LLP, an independent firm of Chartered Accountants, is appointed by the shareholders to audit the consolidated financial statements and report directly to them; their report follows. The external auditors have full and free access to, and meet periodically and separately with, both the Audit Committee and management to discuss their audit findings.

November 23, 2011

*"Marc Levy"*
Chief Executive Officer

*"Nilda Rivera"*
Chief Financial Officer

# Independent Auditors' Report

To the Shareholders of Remstar Resources Ltd.:

We have audited the consolidated financial statements of Remstar Resources Ltd., which comprise the consolidated balance sheets as at July 31, 2011 and 2010, and the consolidated statements of operations, deficit, comprehensive income, accumulated other comprehensive income, and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

*Management's Responsibility for the Consolidated Financial Statements*

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

*Auditors' Responsibility*

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

We believe that the audit evidence we have obtained in our audit 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 Remstar Resources Ltd. as at July 31, 2011 and 2010 and the results of its operations and cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

*Emphasis of Matter*

Without qualifying our opinion, we draw attention to Note 1 to these consolidated financial statements, which states that Remstar Resources Ltd. incurred significant losses from operations, negative cash flows from operating activities and has an accumulated deficit. This, along with other matters as described in Note 1, indicate the existence of a material uncertainty which may cast doubt about the ability of Remstar Resources Ltd. to continue as a going concern.

MNP LLP

***MNP LLP***

Vancouver, BC
November 23, 2011

# REMSTAR RESOURCES LTD.
(An Exploration Stage Company)

Consolidated Balance Sheets
(Expressed in Canadian Dollars)

As at July 31, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| **ASSETS** | | |
| Current | | |
| Cash | $ 165,037 | $ 101,273 |
| Short-term investments | 250,000 | 205,000 |
| Amounts receivable (note 9) | 13,318 | 3,180 |
| Prepaid expenses | 21,246 | 21,101 |
| Investments (note 4) | - | 1,448,218 |
| | 449,601 | 1,778,772 |
| Equipment (note 5) | 16,316 | 39,829 |
| Resource properties (note 6) | 289,137 | - |
| | $ 755,054 | $ 1,818,601 |
| **LIABILITIES** | | |
| Current | | |
| Accounts payable and accrued liabilities (note 6(b) & 9) | $ 81,714 | $ 86,659 |
| Due to related parties (note 9) | - | 6,395 |
| Loans payable (note 7) | - | 999,377 |
| | 81,714 | 1,092,431 |
| **SHAREHOLDERS' EQUITY** | | |
| Share capital (note 8) | 11,979,085 | 11,617,441 |
| Contributed surplus (note 8) | 1,902,055 | 1,802,844 |
| Accumulated other comprehensive income | - | 723,983 |
| Deficit | (13,207,800) | (13,418,098) |
| | 673,340 | 726,170 |
| | $ 755,054 | $ 1,818,601 |

Nature of operations and going concern (note 1)
Commitments (note 10)

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

# REMSTAR RESOURCES LTD.

(An Exploration Stage Company)

Consolidated Statements of Operations
(Expressed in Canadian Dollars)

Years ended July 31, 2011 and 2010

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Administrative expenses: | | | | |
| Amortization | $ | 7,196 | $ | 9,307 |
| Consulting fees | | 33,544 | | 19,720 |
| Interest and bank charges | | 1,152 | | 1,105 |
| Management fees (note 9) | | 64,800 | | 114,783 |
| Office, rent and administration (note 9) | | 36,474 | | 39,120 |
| Professional fees | | 24,389 | | 39,199 |
| Regulatory, transfer agent and shareholder information | | 41,353 | | 21,410 |
| Stock-based compensation | | 100,056 | | 83,137 |
| Travel, advertising and promotion | | 111,941 | | 7,560 |
| Wages and benefits (note 9) | | 89,267 | | 119,769 |
| | | 510,172 | | 455,110 |
| Loss before other items: | | (510,172) | | (455,110) |
| Other items: | | | | |
| Foreign exchange loss | | (3,023) | | (1,936) |
| Interest and other income | | 16,737 | | 3,562 |
| Impairment of equipment (Note 5) | | (17,227) | | - |
| Write-off of resource properties (Note 6) | | - | | (100,000) |
| Gain on sale of investments | | 723,983 | | - |
| | | 720,470 | | (98,374) |
| Net earnings (loss) for the year | $ | 210,298 | $ | (553,484) |
| Earnings (loss) per share | | | | |
| Basic | $ | 0.01 | $ | (0.01) |
| Diluted | | 0.01 | | (0.01) |
| Weighted average number of shares outstanding | | | | |
| Basic | | 39,575,876 | | 39,439,056 |
| Diluted | | 40,485,094 | | 39,439,056 |

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

# REMSTAR RESOURCES LTD.
(An Exploration Stage Company)

Consolidated Statements of Deficit
(Expressed in Canadian Dollars)

Years ended July 31, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Deficit, beginning of the year | $ (13,418,098) | $ (12,864,614) |
| Net earnings (loss) for the year | 210,298 | (553,484) |
| Deficit, end of the year | $ (13,207,800) | $ (13,418,098) |

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

# REMSTAR RESOURCES LTD.
(An Exploration Stage Company)

Consolidated Statements of Comprehensive Income (Loss)
(Expressed in Canadian Dollars)

Years ended July 31, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Net earnings (loss) for the year | $ 210,298 | $ (553,484) |
| Other comprehensive income | - | - |
| Unrealized gain on available-for-sale investments (note 4) | - | 723,983 |
| Comprehensive earnings (loss) for the year | $ 210,298 | $ 170,499 |

Consolidated Statements of Accumulated Other Comprehensive Income
(Expressed in Canadian Dollars)

Years ended July 31, 2011 and 2010

| | 2011 | 2010 |
|---|---|---|
| Accumulated other comprehensive income, beginning of the year | $ 723,983 | $ - |
| Gain on available-for-sale investments transferred to net earnings (loss) | (723,983) | 723,983 |
| Accumulated other comprehensive income, end of the year | $ - | $ 723,983 |

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

**REMSTAR RESOURCES LTD.**
(An Exploration Stage Company)

Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

Years ended July 31, 2011 and 2010

| | | 2011 | | 2010 |
|---|---|---|---|---|
| Cash provided by (used in): | | | | |
| Operating Activities: | | | | |
| Net earnings (loss) for the year | $ | 210,298 | $ | (553,484) |
| Items not involving cash: | | | | |
| Amortization | | 7,196 | | 9,307 |
| Stock-based compensation | | 100,056 | | 83,137 |
| Write-off of resource properties | | - | | 100,000 |
| Impairment of equipment | | 17,227 | | - |
| Gain on sale of investments | | (723,983) | | - |
| | | (389,206) | | (361,040) |
| Changes in non-cash working capital balances: | | | | |
| Amounts receivable | | (10,138) | | 9,195 |
| Prepaid expenses | | (145) | | 61,419 |
| Accounts payable and accrued liabilities | | (15,945) | | (26,515) |
| | | (415,434) | | (316,941) |
| Investing Activities: | | | | |
| Redemption (purchase) of short-term investments | | (45,000) | | 385,000 |
| Proceeds from disposal of investments | | 1,448,218 | | - |
| Interest received from investments | | - | | 12,608 |
| Resource property costs | | (68,137) | | - |
| Purchase of equipment | | (910) | | - |
| | | 1,334,171 | | 397,608 |
| Financing Activities: | | | | |
| Due to related parties | | (6,395) | | (96,775) |
| Repayment of loans | | (999,377) | | 8,891 |
| Shares issued for cash | | 150,799 | | - |
| | | (854,973) | | (87,884) |
| Increase (decrease) in cash during the year | | 63,764 | | (7,217) |
| Cash, beginning of the year | | 101,273 | | 108,490 |
| Cash, end of the year | $ | 165,037 | $ | 101,273 |
| Supplementary information: | | | | |
| Non-cash investing activities: | | | | |
| Shares issued for resource properties and finder’s fee | $ | 221,000 | $ | - |
| Cash paid for: | | | | |
| Interest | $ | - | $ | - |
| Income taxes | $ | - | $ | - |

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

1. Nature of Operations and Going Concern

The Company was incorporated under the laws of the Province of British Columbia on November 3, 1993. The Company's shares are listed for trading on the TSX Venture Exchange ("Exchange").

The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain mineral reserves that are economically recoverable. The Company's ability to continue as a going concern and the recoverability of the amounts shown for resource properties are dependent upon the ability of the Company to raise additional financing in order to complete the acquisition, exploration and development of its resource properties, the discovery of economically recoverable reserves and upon future profitable production or proceeds from disposition of the Company's resource properties. As a resource company in the exploration stage, the ability of the Company to complete its acquisition, exploration and development will be affected principally by its ability to raise adequate amounts of capital through equity financings, debt financings, joint venturing of projects and other means.

These financial statements have been prepared in accordance with generally accepted accounting principles applicable to a going concern, which assumes that the Company will be able to meet its obligations and continue its operations for its next fiscal year. At July 31, 2011, the Company had not yet achieved profitable operations, has accumulated losses of $13,207,800 (2010 - $13,418,098), working capital of $367,887 (2010 - $686,341) and expects to incur further losses in the development of its business, all of which casts substantial doubt about the Company's ability to continue as a going concern. During the year ended July 31, 2011, the Company generated cash of $1,460,827 from the sale of ABCP investment (note 4) and settled loans of $999,377 (note 7). As a result, management has estimated that the Company has adequate funds from existing working capital to meet its obligations for the next twelve months. The Company will require additional financing in the long term as it determines to acquire additional properties or accelerate its presently contemplated work programs and while the Company has been successful in the past, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be available on acceptable terms.

In the event that cash flow from operations, if any, together with the proceeds for any future financings are insufficient to meet the Company's operating expenses, the Company will be required to re-evaluate its planned expenditures and allocate its total resources in such a manner as the Board of Directors and management deem to be in the Company's best interest. This may result in a substantial reduction of the scope of existing and planned operations.

These consolidated financial statements do not give effect to adjustments, which could be material, to the carrying values and classification of assets and liabilities, which may be required should the Company be unable to continue as a going concern.

2. Significant Accounting Policies

These consolidated financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles and within the framework of the significant accounting policies outlined below:

(a) Basis of Consolidation

These consolidated financial statements include the accounts of the Company and its wholly-owned Mexican subsidiary, Promotora Minera Dialex S.A. de C.V. ("Dialex"). All intercompany transactions and balances have been eliminated on consolidation.

(b) Short-term Investments

Short-term investments consist of an investment in a guaranteed investment certificate which has a maturity date beyond three months.

(c) Equipment and Amortization

Equipment is carried at cost less accumulated amortization. Amortization is determined at rates which will reduce original cost to estimated residual value over the useful life of each asset. The annual rates used to compute amortization are as follows:

| | | |
|---|---|---|
| Computer equipment | - | 30% declining balance |
| Office equipment | - | 10 to 20% declining balance |
| Motorcycles | - | 10% declining balance |

Equipment acquired during the year is amortized at one-half the annual rate.

(d) Financial Instruments

The Company's financial instruments consist of cash, short-term investments, amounts receivable, investments, accounts payable and accrued liabilities, due to related parties and loans payable. These financial instruments are classified into one of the following five categories: held-for-trading, held-to-maturity, loans and receivables, available for sale financial assets, or other financial liabilities. Initial and subsequent measurement and recognition of changes in the value of the financial instruments depend on their initial classification.

**i) Held-for-trading financial instruments include cash and short-term investments which are measured at fair value. All gains and losses resulting from changes in their fair value are included in net earnings (loss) in the period in which they arise.**

2. Significant Accounting Policies – (continued)

(d) Financial Instruments – (continued)

**ii) Held-to-maturity investments, loans and receivables, and other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Amortization of premiums or discounts and transaction costs are amortized into net earnings (loss), using the effective interest method less any impairment. Amounts receivable are classified as loans and receivables and accounts payable and accrued liabilities, due to related parties and loans payable are classified as other financial liabilities. Interest income and interest expense are recorded in net income, as applicable.**

**iii) Available-for-sale financial assets include investments which are measured at fair value, with unrealized gains and losses resulting from revaluation are included in other comprehensive income until the asset is realized, at which time they will be recorded in net earnings (loss). Other than temporary impairments on available-for-sale financial assets are recorded in net earnings (loss).**

**iv) Derivatives embedded in other financial instruments or non-financial contracts (the "host instrument") are treated as separate derivatives with fair value changes recognized in the statement of operations when their economic characteristics and risks are not clearly and closely related to those of the host instrument, and the combined instrument or contract is not held for trading. No reportable embedded derivatives were identified in a review of the Company's contracts.**

(e) Resource Properties and Deferred Exploration Costs

The Company accounts for its resource properties whereby all direct costs related to the acquisition, exploration and development of these properties are capitalized. Acquisition costs include cash consideration and the value of common shares, based on common share market prices at the date of issuance, exchanged for resource properties pursuant to the terms of the agreement. All sales and option proceeds received are first credited against the costs of the related property, with any excess credited to earnings. Once commercial production has commenced, the net costs of the applicable property will be charged to operations using the unit-of-production method based on estimated recoverable reserves. On an ongoing basis, the Company evaluates each property, based on results to date, to determine the nature of exploration work that is warranted in the future. If there is little prospect of future work on a property being carried out, the deferred costs related to that property are written down to the estimated amount recoverable.

2. Significant Accounting Policies – (continued)

(f) Impairment of Long-lived Assets

The Company assesses the impairment of long-lived assets, which consist of resource property interests (including deferred exploration costs), investments and equipment, whenever events or changes in circumstances indicate that the carrying value of an asset may not be recoverable. Recoverability of a long-lived asset is then determined by a comparison of the carrying value of the asset to future undiscounted net cash flows expected to be generated by the asset. If such assets are considered to be impaired, the amount of the impairment is measured by the amount by which the carrying amount of the asset exceeds its fair value. During the year ended July 31, 2011, the Company wrote-down its equipment held by $17,227 (2010 - $nil) (note 5).

(g) Asset Retirement Obligations

The fair value of a liability for an asset retirement obligation, such as site reclamation costs, is recognized in the period in which it is incurred if a reasonable estimate of the fair value of the costs to be incurred can be made. The Company is required to record the estimated present value of future cash flows associated with site reclamation as a liability when the liability is incurred and increase the carrying value of the related assets for that amount. Subsequently, these capitalized asset retirement costs will be amortized to expense over the life of the related assets using the unit-of-production method. At the end of each period, the liability is increased to reflect the passage of time (accretion expense) and changes in the estimated future cash flows underlying any initial fair value measurements (additional asset retirement costs). As at July 31, 2011 and 2011, the Company has determined that it does not have any asset retirement obligations.

(h) Environmental Costs

Environmental expenditures that relate to current operations are expensed or capitalized as appropriate. Expenditures that relate to an existing condition caused by past operations and which do not contribute to current or future revenue generation, are expensed. Liabilities are recorded when environmental assessments and/or remedial efforts are probable, and the costs can be reasonably estimated. Generally, the timing of these accruals coincides with the earlier of completion of a feasibility study or the Company's commitment to a plan of action based on the then known facts.

(i) Comprehensive Income

Comprehensive income includes both net earnings and other comprehensive income. Other comprehensive income represents changes in net assets that results from transactions from non-shareholder sources and includes items that would not normally be included in net earnings such as unrealized gains or losses on available-for-sale investments. Other comprehensive income includes the holding gains and losses from available-for-sale securities which are not included in the calculation of net earnings (loss) until realized.

2. Significant Accounting Policies – (continued)

(j) Stock-based Compensation

The Company has a stock-based compensation plan which is described in note 8(c). The Company accounts for all stock-based payments and awards under the fair value based method.

Under the fair value based method, stock-based payments to non-employees are measured at the fair value of the consideration received, or the fair value of the equity instruments issued, or liabilities incurred, whichever is more reliably measurable. The fair value of stock-based payments to non-employees is periodically re-measured until counterparty performance is complete, and any change therein is recognized over the vesting period of the award and in the same manner as if the Company had paid cash instead of paying with or using equity instruments. The cost of stock-based payments to non-employees that are fully vested and non-forfeitable at the grant date is measured and recognized at that date.

Compensation cost attributable to awards to employees is measured at fair value at the grant date and recognized over the vesting period. Compensation cost attributable to awards to employees that call for settlement in cash or other assets is measured at fair value and recognized over the vesting period. Changes in fair value between the grant date and the measurement date result in a change in the measure of compensation cost. Compensation cost is generally recognized on a straight line basis over the vesting period.

(k) Foreign Currency Translation

The functional currency of the Company and its subsidiary is the Canadian dollar. Monetary assets and liabilities denominated in foreign currency are translated into Canadian dollars at the rate of exchange prevailing at the balance sheet date. Non-monetary items are translated at rates of exchange in effect when the amounts were acquired or obligations incurred. Revenue and expenses are translated at rates in effect at the time of the transaction. Foreign exchange gains and losses are recognized in the determination of net loss in the year in which they arise.

(l) Income Taxes

The Company uses the asset and liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current period. Future income tax assets and liabilities are measured using the substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs. To the extent that the Company does not consider it more likely than not that a future tax asset will be recovered, it provides a valuation allowance against the excess.

2. Significant Accounting Policies – (continued)

(m) Basic and Diluted Earnings (Loss) per Share

Basic earnings (loss) per share is calculated by dividing the net earnings (loss) for the year available to common shareholders by the weighted average number of shares outstanding during the year. Diluted earnings per share reflect the potential dilution of securities that could share in earnings of an entity. In a loss year, potentially dilutive common shares are excluded from the loss per share calculation as the effect would be anti-dilutive.

For the year ended July 31, 2011, potentially dilutive common shares (relating to share purchase options and warrants outstanding totalling 4,650,000 were included in the computation of earnings per share.

(n) Measurement Uncertainty

The presentation of financial statements in conformity with Canadian generally accepted accounting principles requires management to make estimates and assumptions which affect the reported amounts of assets and liabilities, and the disclosure of contingent assets and liabilities at the date of the financial statements and reported amounts of revenues and expenses during the year. Significant areas requiring the use of estimates include the assessment of impairment of long-lived assets including resource properties and deferred exploration costs, amortization periods of equipment, valuation of stock-based compensation, and the estimation of future income tax asset valuation allowances. Actual results could differ from those estimates.

(o) Flow-Through Shares

Canadian tax legislation permits a company to issue flow-through shares whereby the deduction for income tax purposes for qualified resource expenditures can be renounced and claimed by the flow-through share subscribers. The Company records issuances of flow-through shares by crediting share capital for the full value of cash consideration received. When resource expenditures are renounced to the investors and the Company has reasonable assurance that the expenditures will be completed, a future income tax liability is recognized with a corresponding reduction to share capital for the cost of the future tax benefits foregone.

If the Company has sufficient unused tax losses and deductions to offset all or part of the future income tax liability and no future income tax assets have been previously recognized on such losses, the Company may reverse a portion of the valuation allowance on future income tax assets and recognize a recovery of future income taxes.

(Expressed in Canadian Dollars)

3. Future Accounting Pronouncements

(a) Consolidations and Non-controlling Interests

Section 1601, Consolidated Financial Statements, and Section 1602, Non-Controlling Interests, replace Section 1600, Consolidated Financial Statements. Section 1601 establishes standards for the preparation of consolidated financial statements. Section 1602 establishes standards for accounting for a non-controlling interest in a subsidiary in consolidated financial statements subsequent to a business combination. It is equivalent to the corresponding provisions of IFRS standard, IAS 27 (Revised), Consolidated and Separate Financial Statements. The Sections apply to interim and annual consolidated financial statements relating to fiscal years beginning on or after January 1, 2011. Earlier adoption is permitted as of the beginning of a fiscal year. The Company does not expect to adopt this standard prior to August 1, 2011, at which time it expects to adopt the equivalent IFRS standard.

(b) International Financial Reporting Standards

In February 2008, the Canadian Accounting Standards Board confirmed January 1, 2011 as the date that International Financial Reporting Standards ("IFRS") will replace Canadian GAAP for publicly accountable enterprises. Effective August 1, 2011, the Company will adopt IFRS as the basis for preparing its consolidated financial statements with a transition date of August 1, 2010. The Company will issue its consolidated financial statements prepared on an IFRS basis commencing with the quarter ended October 31, 2011, and provide comparative data on an IFRS basis as required.

4. Investments

The Company held an investment in non-bank Canadian asset-backed commercial paper ("ABCP"). This investment which had an original face value of $2,416,584 was included in investments at its estimated fair value of $1,448,218 as at July 31, 2010.

On January 21, 2009, the Pan-Canadian Committee of ABCP investors announced that the third-party ABCP restructuring plan had been implemented. Pursuant to the terms of the plan, holders of ABCP had their short-term commercial paper exchanged for longer-term notes which maturities match those of the assets previously contained in the underlying conduits. On closing of the restructuring, the Company exchanged its holdings of ABCP for $2.4 million of long-term floating rate notes from Master Asset Vehicle II ("MAV II") as follows:

| | | |
|---|---|---|
| MAV II Class A-1: | $ | 1,285,623 |
| MAV II Class A-2: | $ | 809,555 |
| MAV II Class B: | $ | 147,412 |
| MAV II Class C: | $ | 70,081 |
| MAV II Class 15: | $ | 103,913 |
| | $ | 2,416,584 |

(Expressed in Canadian Dollars)

4. Investments – (continued)

As at July 31, 2010, based on a fair value estimation of the recoverability of the investments designated as available-for-sale, the Company calculated the fair value of its holdings as $1,460,826 and recorded an unrealized gain of $723,983 in other comprehensive income for the year ended July 31, 2010. The Company received $12,608 in interest and capital redemption receipts during the year ended July 31, 2010 and this was recognized as a credit to the estimated fair value of the asset on the balance sheet as at July 31, 2010. The fair value adjustments, combined with the return of capital, reduced the carrying value of the notes to $1,448,218.

During the year ended July 31, 2011, the Company disposed of its ABCP holdings for proceeds of $1,460,827 and recorded a gain of $723,983.

5. Equipment

| | July 31, 2011 | | | |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Impairment loss | Net Book Value |
| Computer equipment | $ 24,343 | $ 17,229 | $ 880 | $ 6,234 |
| Motorcycles | 11,977 | 3,928 | 8,049 | - |
| Office equipment | 41,715 | 23,335 | 8,298 | 10,082 |
| | $ 78,035 | $ 44,492 | $ 17,227 | $ 16,316 |

| | July 31, 2010 | | | |
|---|---|---|---|---|
| | Cost | Accumulated Amortization | Impairment loss | Net Book Value |
| Computer equipment | $ 23,433 | $ 14,499 | $ - | $ 8,934 |
| Motorcycles | 11,977 | 3,210 | - | 8,767 |
| Office equipment | 41,715 | 19,587 | - | 22,128 |
| | $ 77,125 | $ 37,296 | $ - | $ 39,829 |

During the year ended July 31, 2011, the Company wrote off its equipment held under Dialex. As a result, an impairment loss of $17,227 was recognized during the year ended July 31, 2011 (2010 - $nil).

(Expressed in Canadian Dollars)

6. Resource Properties

| | Coal Applications, Saskatchewan (a) | Snip and Seebach, British Columbia (b) | Total |
|---|---|---|---|
| Balance, July 31, 2009 | $ 100,000 | $ - | $ 100,000 |
| Impairment of resource property | (100,000) | - | (100,000) |
| Balance, July 31, 2010 | - | - | - |
| Acquisition and option payments: | | | |
| Cash consideration | - | 52,500 | 52,500 |
| Common shares | - | 221,000 | 221,000 |
| | - | 273,500 | 273,500 |
| Exploration: | | | |
| Property maintenance costs | - | 15,637 | 15,637 |
| Balance, July 31, 2011 | $ - | $ 289,137 | $ 289,137 |

(a) Coal Applications

On June 23, 2008, the Company entered into a Property Option Agreement pursuant to which the Company acquired a 100% interest in 48 coal lease applications in two properties (24 coal lease applications each for North and South Properties) located in east-central Saskatchewan. The coal lease applications encompass approximately 85,715 acres, 120 km north east of Prince Albert, Saskatchewan.

As consideration for the acquisition, the Company paid $75,000 upon signing of the agreement and issued 500,000 common shares valued at $25,000 to the optionor.

The optionor retains a $2/tonne royalty on all coal mineral production from the permits, of which 50% of the royalty may be acquired by the Company for $2,000,000 ($1,000,000 for each property). In addition, if exploration of the lands leads to production of other mineral and metals other than coal from the same vendor, the vendor (optionor) will retain a 2% net smelter return royalty (“NSR”) on those mineral rights, of which 50% of the NSR may be acquired by the Company for $2,000,000 ($1,000,000 for each property).

During the year ended July 31, 2010, the Company wrote-off all acquisition costs of $100,000.

(Expressed in Canadian Dollars)

6. Resource Properties – (continued)

(b) Snip and Seebach Properties

During the year ended July 31, 2011, the Company entered into an option agreement dated January 12, 2011 to acquire a 60% interest in the Snip and Seebach properties (the “Properties”) located in British Columbia. Under the terms of the agreement, the Company may earn a 60% interest in the Properties by making cash payments of $250,000 and incurring $5,000,000 in exploration expenditures over a period of four years.

On June 17, 2011, the Company renegotiated the terms of the option agreement to acquire a 100% interest in the Properties by paying $50,000, issuing an aggregate of 4,000,000 common shares over two years and incurring exploration expenditures of $850,000 over three years as follows:

| | Cash | Common shares | Exploration expenditures |
|---|---|---|---|
| On execution of option agreement | $ 50,000 (paid) | - | $ - |
| Upon Exchange acceptance | - | 2,000,000 (issued) | - |
| On or before June 17, 2012 | - | 1,000,000 | 150,000 |
| On or before June 17, 2013 | - | 1,000,000 | 350,000 |
| On or before June 17, 2014 | - | - | 350,000 |
| | $ 50,000 | 4,000,000 | $ 850,000 |

The property is subject to a 2% net smelter royalty.

Pursuant to a finder’s fee agreement dated November 10, 2010, the Company agreed to pay a finder’s fee of $2,500 and 200,000 common shares of the Company related to this acquisition. During the year ended July 31, 2011, the Company paid $2,500 and issued 100,000 common shares at a fair value of $10,000 (Note 8(b)). Recorded in accounts payable and accrued liabilities at July 31, 2011 was $11,000 which represents the value of the remaining 100,000 shares to be issued as at July 31, 2011.

7. Loans Payable

The Company negotiated a $1,000,000 credit line facility with an arm’s length party which is secured by certain assets of the Company. As at July 31, 2011, $nil (2010 - $999,377) had been drawn against this credit facility. The repayment of the credit facility is dependent upon sale of certain assets of the Company. During the year ended July 31, 2011, the credit facility was repaid in full.

(Expressed in Canadian Dollars)

8. Share Capital and Contributed Surplus

a) Authorized

Unlimited common shares without par value.

b) Issued

| | Number of Shares | | Amount | | Contributed Surplus |
|---|---|---|---|---|---|
| Balance, July 31, 2009 | 39,439,056 | $ | 11,617,441 | $ | 1,719,707 |
| Stock-based compensation | - | | - | | 83,137 |
| Balance, July 31, 2010 | 39,439,056 | | 11,617,441 | | 1,802,844 |
| Share issued for cash (i) | 1,860,000 | | 130,200 | | - |
| Share issued for mineral properties (Note 6(b)) | 2,000,000 | | 200,000 | | - |
| Finder's fees (Note 6(b)) | 100,000 | | 10,000 | | - |
| Share issue costs | - | | (1,401) | | - |
| Exercise of options (ii) | 220,000 | | 22,000 | | - |
| Cancellation of escrow shares (Note 8(e)) | (144,057) | | (50,420) | | 50,420 |
| Stock-based compensation | - | | - | | 100,056 |
| Transfer to share capital on exercise of stock options | - | | 51,265 | | (51,265) |
| Balance, July 31, 2011 | 43,474,999 | $ | 11,979,085 | $ | 1,902,055 |

(i) On July 28, 2011, the Company closed a non-brokered private placement of 1,860,000 flow-through units at $0.07 per unit for gross proceeds of $130,200. Each flow-through unit consists of one common share and one-half of one common share purchase warrant entitling the holder to acquire an additional common share at $0.10 per share on or before July 28, 2016.

(ii) During the year ended July 31, 2011, 220,000 stock options at $0.10 per share were exercised and an aggregate of 220,000 common shares were issued for total proceeds of $22,000. A reclassification of $51,265 from contributed surplus to share capital was recorded on the exercise of these options.

c) Stock Options

The Company has a stock option plan under which it is authorized to grant options to directors, officers, employees and consultants for up to a maximum of 10% of the issued and outstanding common stock of the Company. The exercise price (less any discounts permitted by regulatory policies and determined by the directors at the time of grant) under each option shall be the market price of the Company's stock at the date of grant. The options granted during the years ended July 31, 2011 and 2010 vest immediately as determined by the Board of Directors or as to 25.0% on the date of the grant and 12.5% every three months thereafter for a total vesting period of 18 months.

(Expressed in Canadian Dollars)

8. Share Capital and Contributed Surplus - (continued)

c) Stock Options – (continued)

A summary of the status of the options outstanding follows:

| | Number of Options | Weighted Average Exercise Price |
|---|---|---|
| Balance, July 31, 2009 | 3,942,000 | $ 0.10 |
| Granted | 250,000 | 0.10 |
| Expired | (162,000) | 0.04 |
| Cancelled | (450,000) | 0.10 |
| Balance, July 31, 2010 | 3,580,000 | 0.10 |
| Granted | 1,115,000 | 0.10 |
| Exercised | (220,000) | 0.10 |
| Cancelled | (755,000) | 0.10 |
| Balance, July 31, 2011 | 3,720,000 | $ 0.10 |

Stock options outstanding and exercisable at July 31, 2011 are as follows:

| Number of Outstanding | Exercise Price | Expiry Date | Number Exercisable |
|---|---|---|---|
| 275,000 | $0.10 | August 9, 2016 | 275,000 |
| 65,000 | $0.10 | April 26, 2017 | 65,000 |
| 370,000 | $0.10 | April 17, 2018 | 370,000 |
| 520,000 | $0.10 | May 20, 2018 | 520,000 |
| 185,000 | $0.10 | June 2, 2018 | 185,000 |
| 200,000 | $0.10 | June 2, 2018 | 200,000 |
| 75,000 | $0.10 | June 12, 2018 | 75,000 |
| 265,000 | $0.10 | February 4, 2019 | 265,000 |
| 400,000 | $0.10 | February 18, 2019 | 400,000 |
| 250,000 | $0.10 | December 1, 2019 | 250,000 |
| 1,115,000 | $0.10 | October 12, 2020 | 1,115,000 |
| 3,720,000 | | | 3,720,000 |

(Expressed in Canadian Dollars)

8. Share Capital and Contributed Surplus - (continued)

c) Stock Options – (continued)

During the year ended July 31, 2011, under the fair value based method, $100,056 (2010 - $83,137) in compensation expense was recorded for stock options granted to directors, officers and consultants of the Company and charged to operations.

The fair value of stock options used to calculate compensation expense has been estimated using the Black-Scholes option pricing model using the following weighted average assumptions:

| | 2011 | 2010 |
|---|---|---|
| Risk free interest rate | 1.88 % | 1.02% |
| Expected life of options | 5.58 years | 3 years |
| Expected dividend yield | 0 % | 0% |
| Expected stock price volatility | 119.06 % | 136% |
| Fair value of options per share | $0.08 | $0.06 |

d) Warrants

Each whole warrant entitles the holder to purchase one common share of the Company.

| | Number of Warrants | Weighted Average Exercise Price |
|---|---|---|
| Balance, July 31, 2009 | 340,000 | $ 0.75 |
| Expired | (340,000) | 0.75 |
| Balance, July 31, 2010 | - | - |
| Granted | 930,000 | 0.10 |
| Balance, July 31, 2011 | 930,000 | $ 0.10 |

Warrants outstanding at July 31, 2011 are as follows:

| Number of Outstanding | Exercise Price | Expiry Date |
|---|---|---|
| 930,000 | $0.10 | July 28, 2016 |

e) Escrow

As at July 31, 2011, nil (2010 - 144,057) shares were held in escrow. On February 28, 2011, the 144,057 common shares held in escrow were cancelled and returned to treasury.

(Expressed in Canadian Dollars)

9. Related Party Transactions

During the years ended July 31, 2011 and 2010, the Company entered into the following transactions with related parties:

a) Paid or accrued $64,800 (2010 - $114,784) for management fees to companies controlled by a director and an officer and a former officer of the Company.

b) Paid or accrued $nil (2010 - $56,559) for rent and office expenses to a company having a former director and a former officer in common.

c) Paid or accrued $4,510 (2010 - $2,629) for legal fees to a company controlled by an officer of the Company.

d) Recovered $217,100 (2010 - $202,800) for rent, wages and office expenses from companies having directors and officers in common.

e) Recovered $82,410 (2010 - $nil) for advertising and promotion expenses from companies having directors and officers in common.

All related party transactions were recorded at their exchange amounts, which is the amount of consideration established and agreed to by the related parties.

Included in amounts receivable are expense reimbursements of $9,826 (2010 - $840) due from a company having an officer in common. These amounts were received subsequent to July 31, 2011.

Included in accounts payable and accrued liabilities are prepaid rent of $nil (2010 - $10,304) and rent deposits of $9,000 (2010 - $9,000) received from companies having a director and an officer in common.

Included in due to related parties were $nil (2010 - $6,395) owing to companies controlled by a director, a former officer and a former director of the Company and to companies having a director and a former officer in common. Amounts due to related parties are unsecured, non-interest bearing and have no specific terms of repayment.

10. Commitments

The Company is committed to future minimum annual lease payments with respect to office leases expiring January 31, 2015, as follows:

| | $ |
|---|---|
| 2012 | 73,259 |
| 2013 | 74,470 |
| 2014 | 75,491 |
| 2015 | 38,256 |
| | 261,476 |

(Expressed in Canadian Dollars)

11. Financial Instruments

The Company's financial instruments consist of cash, short-term investments, amounts receivable, accounts payable and accrued liabilities, due to related parties and loans payable.

Cash and short-term investments are designated as held-for-trading and carried at their fair values. Amounts receivable is classified as a loan and receivable and carried at its amortized cost. Accounts payable and accrued liabilities, due to related parties and loans payable are classified as other financial liabilities and carried at their amortized cost.

The fair values of these financial instruments approximate their carrying values due to their short-term nature and/or the existence of market related interest rate on the instruments.

In evaluating fair value information, considerable judgment is required to interpret the market data used to develop the estimates. The use of different market assumptions and different valuation techniques may have a material effect on the estimated fair value amounts. Accordingly, the estimates of fair value presented herein may not be indicative of the amounts that could be realized in a current market exchange.

The following table is a classification of fair value measurements recognized using a fair value hierarchy that reflects the significance of the inputs used in making the measurements as at July 31, 2011:

| Assets | Level 1 | Level 2 | Level 3 | Total |
|---|---|---|---|---|
| Cash and cash equivalents | $ 165,037 | $ - | $ - | $ 165,037 |
| Short-term investments | $ 250,000 | $ - | $ - | $ 250,000 |

12. Financial Risk Exposure and Risk Management

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

(a) Credit risk

Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The Company is subject to credit risk on the cash balances at the bank, its short-term bank Guaranteed Investment Certificates ("GICs") and amounts receivable. The investments are with Schedule 1 banks or equivalent, with the majority of its cash held in Canadian based banking institutions, authorized under the Bank Act to accept deposits, which may be eligible for deposit insurance provided by the Canadian Deposit Insurance Corporation. The amounts receivable consist of accounts receivable of $11,088 and accrued interest receivable of $2,230 which are not considered past due. Management considers that risks related to credit are minimal.

12. Financial Risk Exposure and Risk Management – (continued)

(b) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet the obligations associated with its financial liabilities. The Company's approach to managing liquidity is to ensure that it will have sufficient liquidity to settle obligations and liabilities when due. As at July 31, 2011, the Company had cash and short-term investments of $415,037 to settle accounts payable of $81,714 that are considered short term and settled within 30 days. Management believes that the Company has sufficient capital to meet its requirements for the next twelve months.

The Company is dependent on the availability of credit from its suppliers and its ability to generate sufficient funds from equity and debt financing to meet current and future obligations. There can be no assurance that such financing will be available on terms acceptable to the Company.

(c) Market risk

(i) Interest rate risk

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company's accounts payable and accrued liabilities are non-interest bearing. As at July 31, 2011 the Company's interest bearing assets are cash and short-term investments. The Company maintains a minimum cash balance in its chequing account and transfers funds from its investment account when the need arises. The Company's investments are placed in GICs which interest rates vary depending on the rates offered by the banks when the instruments mature and are automatically renewed. A change of 100 basis points in the interest rates would not be material to the financial statements. For the year ended July 31, 2011, the Company recognized $16,737 in interest income from its interest bearing investments.

(ii) Foreign currency risk

The Company conducts part of its business in US dollars and Mexican Pesos and therefore is affected by variations in exchange rates. The Company has determined that an effect of a 10% increase or decrease in the US dollars and Mexican Pesos against the Canadian dollar on financial assets and liabilities, as at March 31, 2011, including cash and cash equivalents and accounts payable and accrued liabilities denominated in US dollars and Mexican Pesos, would result in an insignificant change to the net loss and comprehensive loss for the year ended July 31, 2011. At July 31, 2011, the Company had no hedging agreements in place with respect to foreign exchange rates.

(iii) Commodity price risk

Commodity price risk is the risk of financial loss resulting from movements in the price of the Company's commodity inputs and outputs. The Company's risk relates primarily to the expected output to be produced at its resource property described in note 6 of these financial statements of which production is not expected in the near future.

(Expressed in Canadian Dollars)

12. Financial Risk Exposure and Risk Management – (continued)

During the year ended July 31, 2011 and 2010, there were no changes to the Company's risk exposure or to the Company's policies for risk management.

13. Capital Management

The Company's objectives when managing capital are to ensure that there are adequate capital resources to safeguard the Company's ability to continue as a going concern and maintain adequate levels of funds to support the acquisition, exploration and development of resource properties such that it can continue to provide returns to shareholders and benefits for other stakeholders.

The Company considers the items included in shareholders' equity as capital. The Company manages its capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the Company's underlying assets. In order to maintain or adjust its capital structure, the Company may issue new shares or sell assets to settle liabilities. The Company has no debt and is not subject to externally imposed capital requirements.

The properties in which the Company currently has an interest in are in the exploration stage, as such, the Company does not recognize revenue from its exploration properties. The Company's historical sources of capital have consisted of the sale of equity securities, loans, advances from related parties and interest income. In order for the Company to carry out planned exploration and development and pay for administrative costs, the Company will spend its working capital and expects to raise additional amounts externally as needed.

There were no changes in the Company's management of capital during the year ended July 31, 2011 and 2010.

14. Income Taxes

The provision for income taxes reported differs from the amount computed by applying the Canadian basic statutory rate to loss before income taxes for the following reasons:

| | **2011** | **2010** |
|---|---|---|
| Income (loss) from continuing operations before income taxes | $ 210,298 | $ (553,484) |
| Statutory income tax rate | 27.33% | 29.13% |
| Income tax expense (recovery) computed at statutory rates | 57,482 | (161,203) |
| Effect of reduction in tax rates | 48,628 | 23,978 |
| Impact of higher tax rate in foreign subsidiary | (518) | (112,640) |
| Stock based compensation not deductible for tax purposes | 27,349 | 24,214 |
| Tax benefit from share issuance costs not recognized | (350) | (34,201) |
| Other non-deductible permanent differences | (107,372) | 1,892 |
| Revision to tax account estimates | 91,340 | - |
| Increase (decrease) in valuation allowance | $ (116,559) | $ 257,960 |
| Income tax recovery | - | - |

(Expressed in Canadian Dollars)

14. Income Taxes – (Continued)

Temporary differences and carryforwards which give rise to the following future tax assets as at July 31, 2011 are as follows:

| | **2011** | **2010** |
|---|---|---|
| Non capital loss carryforward | $ 1,553,318 | $ 1,562,951 |
| Capital loss carryforward | 280,444 | 159,398 |
| Tax value of share issuance costs in excess of book value | 3,580 | 116,966 |
| Tax value of equipment in excess of book value | 12,060 | 5,599 |
| Tax value of resource properties in excess of book value | 25,000 | 25,000 |
| Tax value of long term investments in excess of book value | - | 121,046 |
| Total gross future income tax asset | 1,874,402 | 1,990,960 |
| Less: valuation allowance | (1,874,402) | (1,990,960) |
| Net future income tax assets | $ - | $ - |

Estimated taxable income for the period is $Nil. Based upon the level of historical taxable income, it cannot be reasonably estimated at this time if it is more likely than not that the Company will realize the benefits from future income tax assets. The estimated taxable temporary difference valuation allowance will be adjusted in the period it is determined that it is more likely than not that some portion or all of the future tax assets will be realized.

| | Canada | Mexico | Total |
|---|---|---|---|
| 2014 | $ 10,848 | $ - | $ 10,848 |
| 2015 | 91,226 | - | 91,226 |
| 2016 | - | 407,126 | 407,126 |
| 2017 | - | 1,394,330 | 1,394,330 |
| 2018 | - | 61,566 | 61,566 |
| 2019 | - | 85,289 | 85,289 |
| 2020 | - | 2,694 | 2,694 |
| 2026 | 455,022 | - | 455,022 |
| 2027 | 1,262,892 | - | 1,262,892 |
| 2028 | 783,044 | - | 783,044 |
| 2029 | 476,557 | - | 476,557 |
| 2030 | 461,849 | - | 461,849 |
| 2031 | 486,708 | - | 486,708 |
| | $ 4,028,146 | $ 1,951,005 | $ 5,979,151 |

(Expressed in Canadian Dollars)

15. Segmented Information

The Company operated in the following geographic segments at July 31, 2011 and for the year then ended:

| | Canada | Mexico | Total |
|---|---|---|---|
| Total assets | $ 755,054 | $ - | $ 755,054 |
| Interest and other income | $ 16,737 | $ - | $ 16,737 |
| Other comprehensive income | $ - | $ - | $ - |
| Income (loss) for the year | 229,711 | (19,413) | 210,298 |
| Comprehensive income (loss) for the year | $ 229,711 | $ (19,413) | $ 210,298 |

The Company operated in the following geographic segments at July 31, 2010 and for the year then ended:

| | Canada | Mexico | Total |
|---|---|---|---|
| Total assets | $ 1,799,175 | $ 19,426 | $ 1,818,601 |
| Interest and other income | $ 3,562 | $ - | $ 3,562 |
| Other comprehensive income | $ 723,983 | $ - | $ 723,983 |
| Loss for the year | (550,816) | (2,668) | (553,484) |
| Comprehensive income (loss) for the year | $ 173,167 | $ (2,668) | $ 170,499 |