REMSTAR RESOURCES LTD.

(An Exploration Stage Company)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS (UNAUDITED)

Three months ended October 31, 2011 and 2010

(<u>Expressed in Canadian Dollars</u>)

REMSTAR RESOURCES LTD.

(the “Company”)

CONDENSED INTERIM CONSOLIDATED FINANCIAL STATEMENTS

Three months ended October 31, 2011 and 2010

NOTICE OF NO AUDITOR REVIEW OF INTERIM FINANCIAL STATEMENTS

The management of Remstar Resources Ltd. is responsible for the preparation of the accompanying unaudited condensed interim consolidated financial statements. The unaudited condensed interim consolidated financial statements have been prepared using accounting policies in compliance with International Financial Reporting Standards for the preparation of condensed interim consolidated financial statements and are in accordance with IAS 34 - Interim Financial Reporting.

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

January 27, 2012

REMSTAR RESOURCES LTD.

(An Exploration Stage Company)

Condensed Interim Consolidated Statements of Financial Position (Unaudited)
(Expressed in Canadian Dollars)

	October 31, 2011	July 31, 2011 (Note 14)	August 1, 2010 (Note 14)
	$	$	$
ASSETS			
Current			
Cash	95,452	165,037	101,273
Short-term investments	150,000	250,000	205,000
Amounts receivable (note 9)	43,422	13,318	3,180
Prepaid expenses	20,977	21,246	21,101
Investments (note 4)	-	-	1,448,218
	309,851	449,601	1,778,772
Equipment (note 5)	10,645	16,316	39,829
Exploration and evaluation assets (note 6)	357,175	289,137	-
	677,671	755,054	1,818,601
LIABILITIES			
Current			
Accounts payable and accrued liabilities (notes 6 & 9)	74,765	81,714	86,659
Due to related parties (note 9)	-	-	6,395
Loans payable (note 7)	-	-	999,377
	74,765	81,714	1,092,431
SHAREHOLDERS' EQUITY			
Share capital (note 8)	12,095,210	12,070,825	11,709,181
Reserves (note 8)	781,336	945,587	1,893,836
Deficit	(12,273,640)	(12,343,072)	(12,876,847)
	602,906	673,340	726,170
	677,671	755,054	1,818,601

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

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

REMSTAR RESOURCES LTD.
(An Exploration Stage Company)

Condensed Interim Consolidated Statements of Income (Loss) and Comprehensive Income (Loss) (Unaudited)
(Expressed in Canadian Dollars)

Three months ended October 31,	2011	2010 (Note 14)
	$	$
Administrative expenses:		
Consulting fees	11,400	6,394
Depreciation	591	1,762
Management fees (note 9)	16,200	16,200
Office, rent and administration (note 9)	5,503	4,623
Professional fees	-	2,511
Regulatory, transfer agent and shareholder information	8,428	2,862
Share-based payments	-	104,352
Travel, advertising and promotion	9,985	2,896
Wages and benefits (note 9)	17,829	22,717
	69,936	174,317
Loss before other items	(69,936)	(174,317)
Other items:		
Foreign exchange gain (loss)	1,747	(388)
Finance income	684	14,085
Finance and other costs	(187)	(2,600)
Write-off of equipment (note 5)	(5,080)	-
Gain on sale of investments	-	723,983
	(2,836)	735,080
Earnings (loss) for the period	(72,772)	560,763
Other comprehensive income (loss):		
Cumulative translation adjustment	2,338	(459)
Comprehensive earnings (loss) for the period	(70,434)	560,304
Earnings (loss) per share:		
Basic (Note 8(g))	-	0.01
Diluted (Note 8(g))	-	0.01

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

REMSTAR RESOURCES LTD.
(An Exploration Stage Company)

Condensed Interim Consolidated Statements of Changes in Equity (Unaudited)
(Expressed in Canadian Dollars)

	Share capital		Reserves					Retained Earnings (Deficit)	Total shareholders' equity
	Common shares	Amount	Stock options	Foreign currency translation	Available for sale financial assets	Treasury shares	Total		
	#	$	$	$	$	$	$	$	$
Balance, August 1, 2010	**39,439,056**	**11,709,181**	**1,169,853**	**-**	**723,983**	**-**	**1,893,836**	**(12,876,847)**	**726,170**
Comprehensive income (loss) for the period	-	-	-	(459)	-	-	(459)	560,763	560,304
Expired options	-	-	(332,119)	-	-	-	(332,119)	332,119	-
Gain on available-for-sale investments transferred to net earnings (loss)	-	-	-	-	(723,983)	-	(723,983)	-	(723,983)
Share-based payments	-	-	104,352	-	-	-	104,352	-	104,352
Balance, October 31, 2010	**39,439,056**	**11,709,181**	**942,086**	**(459)**	**-**	**-**	**941,627**	**(11,983,965)**	**666,843**
Comprehensive income (loss) for the period	-	-	-	471	-	-	471	(359,107)	(358,636)
Exercise of options	220,000	22,000	-	-	-	-	-	-	22,000
Fair value of stock options transferred to share capital upon exercise	-	51,265	(51,265)	-	-	-	(51,265)	-	-
Private placement	1,860,000	130,200	-	-	-	-	-	-	130,200
Share issue costs	-	(1,401)	-	-	-	-	-	-	(1,401)
Finder's fees	100,000	10,000	-	-	-	-	-	-	10,000
Escrow shares cancelled	(144,057)	(50,420)	-	-	-	50,420	50,420	-	-
Share issued for exploration and evaluation assets	2,000,000	200,000	-	-	-	-	-	-	200,000
Share-based payments	-	-	4,334	-	-	-	4,334	-	4,334
Balance, July 31, 2011	**43,474,999**	**12,070,825**	**895,155**	**12**		**50,420**	**945,587**	**(12,343,072)**	**673,340**
Comprehensive income (loss) for the period	-	-	-	2,338	-	-	2,338	(72,772)	(62,235)
Fair value of stock options transferred to share capital upon exercise	-	24,385	(24,385)	-	-	-	(24,385)	-	-
Expired options	-	-	(142,204)	-	-	-	(142,204)	142,204	
Balance, October 31, 2011	**43,474,999**	**12,095,210**	**728,566**	**2,350**	**-**	**50,420**	**781,336**	**(12,273,640)**	**602,906**

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

REMSTAR RESOURCES LTD.
(An Exploration Stage Company)

Condensed Interim Consolidated Statements of Cash Flows (Unaudited)
(Expressed in Canadian Dollars)

Three months ended October 31,	2011	2010
	$	$
Cash provided by (used in):		
Operating Activities:		
Net earnings (loss) for the period	(72,772)	560,763
Items not involving cash:		
Depreciation	591	1,762
Stock-based compensation	-	104,352
Foreign exchange gain (loss)	2,338	(459)
Write-off of equipment	5,080	
Gain on sale of investments	-	(723,983)
	(64,763)	(57,565)
Changes in non-cash working capital balances:		
Amounts receivable	(30,104)	(2,124)
Prepaid expenses	269	452
Accounts payable and accrued liabilities	(5,949)	(12,997)
	(100,547)	(72,234)
Investing Activities:		
Redemption (purchase) of short-term investments	100,000	(415,000)
Proceeds from disposal of investments	-	1,448,218
Exploration and evaluation assets	(69,038)	-
	30,962	1,033,218
Financing Activities:		
Due to related parties	-	6,133
Repayment of loans	-	(999,377)
	-	(993,244)
Decrease in cash during the period	(69,585)	(32,260)
Cash, beginning of the period	165,037	101,273
Cash, end of the period	95,452	69,013

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 head office and principal address of the Company are located at Suite 507 – 700 West Pender Street, Vancouver, BC, Canada, V6C 1G8. The Company's records office and registered office address is located at Suite 1780 - 400 Burrard Street, Vancouver, British Columbia, Canada, V6C 3A6.

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.

At October 31, 2011, the Company had not yet achieved profitable operations, has accumulated losses of $12,273,640 (July 31, 2011 - $12,343,072), working capital of $235,086 (July 31, 2011 - $367,887) 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

The financial statements were authorized for issue on January 27, 2012 by the Directors of the Company. The accounting policies set out below have been applied consistently to all periods presented in these financial statements.

(a) Statement of Compliance and Adoption of International Financial Reporting Standards ("IFRS")

The condensed interim consolidated financial statements of the Company have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting" and IFRS 1, "First time adoption of International Financial Reporting Standards ("IFRS")" using accounting policies consistent with IFRS as issued by the International Accounting Standards Board ("IASB") and interpretations issued by the IFRS Interpretations Committee ("IFRIC").

The condensed interim consolidated financial statements do not include all of the information required for full annual financial statements and should be read in conjunction with the audited annual financial statements of the Company as at and for the year ended July 31, 2011 prepared in accordance with Canadian Generally Accepted Accounting Principles ("GAAP"). The basis of presentation of these condensed interim consolidated financial statements is different to that of the Company's most recent annual financial statements due to the first time adoption of IFRS.

The impact of the conversion from GAAP to IFRS is explained in note 14. Note 14 includes reconciliations of the Company's condensed interim consolidated statements of financial position and statements of comprehensive income (loss) for comparative periods prepared in accordance with GAAP as previously reported to those prepared and reported in these unaudited condensed interim consolidated financial statements in accordance with IFRS.

(b) Basis of Presentation and Consolidation

The condensed interim consolidated financial statements are presented in Canadian dollars unless otherwise noted. The condensed interim 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 balances and transactions have been eliminated on consolidation.

The condensed interim consolidated financial statements of the Company have been prepared on the historical cost basis except for certain financial instruments which are measured at fair value as explained in note 2(n).

2. Significant Accounting Policies – (continued)

(c) Use of Estimates and Judgments

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. 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. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Areas requiring a significant degree of estimation and judgment relate to the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments and share-based payments and other equity-based payments and the estimated useful life and recoverability of equipment. Actual results may differ from those estimates and judgments.

(d) Functional and Presentation of Foreign Currency

(i) Functional and presentation currency

Items included in the financial statements of the Company's subsidiary are measured using the currency of the primary economic environment in which the entity operates ("the functional currency").

The condensed interim consolidated financial statements are presented in Canadian dollars.

(ii) Transactions and balances

Foreign currency transactions are translated into the functional currency using the exchange rates prevailing at the dates of transactions. Monetary assets and liabilities denominated in foreign currencies at the reporting date are translated to the functional currency at the exchange rate at that date and non-monetary assets and liabilities are translated at historical rates. Foreign currency gains and losses arising from translation are included in profit and loss.

(iii) Subsidiaries

The results and financial position of subsidiaries that have a functional currency different from the presentation currency are translated into the presentation currency as follows:

- Assets and liabilities are translated at the closing rate at the reporting date;
- Income and expenses for each income statement are translated at average exchange rates for the period; and
- All resulting exchange differences are recognized in other comprehensive income as cumulative translation adjustments

2. Significant Accounting Policies – (continued)

(d) Functional and Presentation of Foreign Currency - (continued)

(iii) Subsidiaries – (continued)

On consolidation, exchange differences arising from the translation of the net investment in foreign entities are taken to the foreign currency translation reserve. When a foreign operation is sold, such exchange differences are recognised in the income statement as part of the gain or loss on sale.

(e) Short-term Investments

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

(f) Equipment

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

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

(g) Exploration and Evaluation Assets

These assets relate to mineral rights acquired and exploration and evaluation expenditures capitalized in respect of projects that are in the exploration or pre-development stage.

Once a right to explore a mineral property has been secured, exploration and evaluation expenditures are capitalized and include the costs of acquiring licenses, costs associated with exploration and evaluation activity, and the fair value (at acquisition date) of exploration and evaluation assets acquired in a business combination. Costs incurred before the Company has obtained the legal rights to explore a mineral property are expensed as incurred.

Government tax credits received are recorded as a reduction to the cumulative costs incurred and capitalized on the related property.

Once the technical feasibility and commercial viability of the extraction of mineral resources in an area of interest are demonstrable, exploration and evaluation assets attributable to that mineral property are first tested for impairment and then reclassified to mining property and development assets within property, plant and equipment.

2. Significant Accounting Policies – (continued)

(g) Exploration and Evaluation Assets - (continued)

Recoverability of the carrying amount of any exploration and evaluation assets is dependent on successful development and commercial exploitation, or alternatively, sale of the respective mineral properties.

(h) Impairment of Non-financial Assets

The carrying amount of the Company's non-financial assets (which include equipment and exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of income and comprehensive income.

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.

(i) Decommissioning Obligation

The liability for a decommissioning obligation, such as site reclamation costs, is recorded when a legal or constructive obligation exists and is recognized in the period in which it is incurred. The Company records the estimated present value of future cash flows associated with site reclamation as a liability when the liability is incurred and increases the carrying value of the related assets for that amount. Subsequently, these capitalized decommissioning costs will be amortized to expense over the life of the related assets using the units-of-production method. The liability is accreted to reflect the passage of time and adjusted to reflect changes in the timing and amount of estimated future cash flows.

As at October 31, 2011, July 31, 2011 and August 1, 2010, the Company has determined that it does not have material decommissioning obligations.

2. Significant Accounting Policies – (continued)

(j) Share Capital

Incremental costs directly attributable to the issuance of common shares are recognized as a deduction from equity. The proceeds from the exercise of stock options or warrants together with amounts previously recorded over the vesting periods are recorded as share capital. Share capital issued for non-monetary consideration is recorded at an amount based on fair value on the date of issue.

(k) Share-based Payments

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

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

The Company calculates basic loss per share using the weighted average number of common shares outstanding during the period. Diluted loss per share is calculated by adjusting the weighted average number of common shares outstanding by an amount that assumes that the proceeds to be received on the exercise of dilutive stock options and warrants are applied to repurchase common shares at the average market price for the period in calculating the net dilution impact. Stock options and warrants are dilutive when the Company has income from continuing operations and the average market price of the common shares during the period exceeds the exercise price of the options and warrants.

Due to the loss for the period ended October 31, 2011, basic loss per share is equal to dilutive loss per share for the period presented.

2. Significant Accounting Policies – (continued)

(m) Flow-Through Shares

The Company finances a portion of its exploration activities through the issuance of flow-through shares. Canadian tax legislation permits a company to issue flow-through instruments whereby the deduction for tax purposes relating to qualified resource expenditures is claimed by the investors rather than the Company. Common shares issued on a flow-through basis typically include a premium because of the tax benefits provided to the investor. At the time of issue, the Company estimates the proportion of the proceeds attributable to the premium and the common shares. The premium is estimated as the excess of the subscription price over the value of common shares on the date of the transaction and is recorded as a deferred liability. The Company recognizes a pro rata amount of the premium through the statement of loss and comprehensive loss as other income with a corresponding reduction to the deferred tax liability as the flow-through expenditures are incurred and renounced.

When the flow-through expenditures are incurred and renounced, the Company records the tax effect as a change to profit or loss and an increase to deferred income tax liabilities. To the extent that the Company has deferred income tax assets that were not recognized in previous periods, a deferred income tax recovery is recorded to offset the liability resulting from the renunciation.

(n) Financial Instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition. The classification and measurement of the Company's financial instruments are disclosed in note 11 to these condensed interim consolidated financial statements.

Financial assets are classified at fair value through profit or loss when they are either held for trading in the near future or are designated as such upon initial recognition. They are initially and subsequently recorded at fair value and changes in fair value are recognized in profit or loss for the period.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and such assets are recognized initially at fair value and subsequently on an amortized cost basis using the effective interest method, less any impairment losses. Loans and receivables are included in current assets, except for maturities greater than 12 months after the end of the reporting period, which are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are initially recorded at fair value and subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

2. Significant Accounting Policies – (continued)

(n) Financial Instruments - (continued)

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

Non-derivative financial liabilities (excluding financial guarantees) are recorded at the date of obligation at fair value and are subsequently measured at amortized cost using the effective interest method.

Regular purchases and sales of financial assets are recognized on the trade-date – the date on which the Company commits to purchase the asset.

Financial assets are derecognized when the rights to receive cash flows from the investments have expired or have been transferred and the Company has transferred substantially all risks and rewards of ownership.

At each reporting date, the Company assesses whether there is objective evidence that a financial instrument has been impaired. In the case of available-for-sale financial instruments, a significant and prolonged decline in the value of the instrument is considered to determine whether impairment has arisen.

3. Recent Accounting Pronouncements

The following IFRS standards have been recently issued by the International Accounting Standards Board (“IASB”): Amendments to IFRS 7 Financial Instruments: Disclosures, IFRS 9 Financial Instruments, IFRS 10 Financial Statements and IFRS 13 Fair Value Measurement. The Company is assessing the impact of these new standards, but does not expect them to have a significant effect on the financial statements.

(a) Amendments to IFRS 7, Financial instruments: Disclosures

IFRS 7 Financial Instruments: Disclosures (“IFRS 7”) was amended by the IASB in October 2010 and provides guidance on identifying transfers of financial assets and continuing involvement in transferred assets for disclosure purposes. The amendments introduce new disclosure requirements for transfers of financial assets including disclosures for financial assets that are not derecognized in their entirety, and for financial assets that are derecognized in their entirety but for which continuing involvement is retained. The amendments are effective for annual periods beginning on or after July 1, 2011.

3. Recent Accounting Pronouncements – (continued)

(b) IFRS 9, Financial instruments

IFRS 9, Financial Instruments ("IFRS 9") was issued by the IASB on November 12, 2009, and will replace IAS 39, Financial Instruments: Recognition and Measurement ("IAS 39"). IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized costs or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of IFRS 9 on its financial statements.

(c) IFRS 10, Consolidated Financial statements

IFRS 10 Financial Statements ("IFRS 10") provides a single model to be applied in the control analysis for all investees, including entities that currently are SPEs in the scope of SIC-12. In addition, the consolidation procedures are carried forward substantially unmodified from IAS 27 (2008). The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on August 1, 2013 and is currently evaluating the impact on its consolidated financial statements.

(d) IFRS 13, Fair value measurement

IFRS 13, Fair Value Measurement ("IFRS 13") was issued by the IASB on May 12, 2011. The new standard converges IFRS and US GAAP on how to measure fair value and the related fair value disclosures. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. IFRS 13 is effective for annual periods beginning on or after January 1, 2013, with early adoption permitted.

(Expressed in Canadian Dollars)

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

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.

(Expressed in Canadian Dollars)

5. Equipment

	Computer hardware	Motorcycles	Office equipment	Total
	$	$	$	$
Costs:				
Balance, August 1, 2010	23,433	11,977	41,715	77,125
Additions	910	-	-	910
Balance, July 31, 2011 and October 31, 2011	24,343	11,977	41,715	78,035
Depreciation:				
Balance, August 1, 2010	14,499	3,210	19,587	37,296
Depreciation	2,730	718	3,748	7,196
Balance, July 31, 2011	17,229	3,928	23,335	44,492
Depreciation	87	-	504	591
Balance, October 31, 2011	17,316	3,928	23,839	45,083
Impairment:				
Balance, August 1, 2010	-	-	-	-
Impairment	880	8,049	8,298	17,227
Balance, July 31, 2011	880	8,049	8,298	17,227
Impairment	5,080	-	-	5,080
Balance, October 31, 2011	5,960	8,049	8,298	22,307
Net Book Value:				
August 1, 2010	8,934	8,767	22,128	39,829
July 31, 2011	6,234	-	10,082	16,316
October 31, 2011	1,067	-	9,578	10,645

During the three months ended October 31, 2011, the Company wrote-off certain equipment in Canada. As a result, an impairment loss of $5,080 was recognized during the three months ended October 31, 2011.

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.

(Expressed in Canadian Dollars)

6. Exploration and Evaluation Assets

	Snip and Seebach, British Columbia
	$
Balance, August 1, 2010	-
Acquisition and option payments:	
Cash consideration	52,500
Common shares	221,000
	273,500
Exploration:	
Property maintenance costs	15,637
Balance, July 31, 2011	289,137
Acquisition and option payments:	
Common shares	(3,500)
Exploration:	
Consulting and geological fees	71,538
Balance, October 31, 2011	357,175

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

6. Exploration and Evaluation Assets – (continued)

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. Recorded in accounts payable and accrued liabilities at October 31, 2011 was $7,500 (July 31, 2011 - $11,000) which represents the fair value of the remaining 100,000 shares to be issued as at October 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 October 31, 2011, $nil (July 31, 2011- $nil, Aug 1, 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.

8. Share Capital and Reserves

a) Authorized

Unlimited number of voting common shares without par value.

b) Issued

At October 31, 2011, there were 43,474,999 issued and fully paid common shares (July 31, 2011 – 43,474,999; August 1, 2010 – 39,439,056).

c) Share Issuances

(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.

The gross proceeds of the flow-through financing must be used to incur qualifying Canadian exploration expenditures under the Income Tax Act (Canada) and the tax benefits of such expenditures will be renounced to the investors (note 10(a)).

(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 reserves to share capital was recorded on the exercise of these options.

(Expressed in Canadian Dollars)

8. Share Capital and Reserves - (continued)

d) 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 year ended July 31, 2011 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.

A summary of the status of the options outstanding follows:

	Number of Options	Weighted Average Exercise Price
	#	$
Balance, August 1, 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
Cancelled	(750,000)	0.10
Balance, October 31, 2011	2,970,000	0.10

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

Number of Outstanding	Exercise Price	Expiry Date	Number Exercisable
125,000	$0.10	August 9, 2016	125,000
50,000	$0.10	April 26, 2017	50,000
170,000	$0.10	April 17, 2018	170,000
520,000	$0.10	May 20, 2018	520,000
185,000	$0.10	June 2, 2018	185,000
75,000	$0.10	June 12, 2018	75,000
265,000	$0.10	February 4, 2019	265,000
350,000	$0.10	February 18, 2019	350,000
250,000	$0.10	December 1, 2019	250,000
980,000	$0.10	October 12, 2020	980,000
2,970,000			2,970,000

(Expressed in Canadian Dollars)

8. Share Capital and Reserves - (continued)

d) Stock Options – (continued)

During the three months ended October 31, 2011, the Company recognized share-based compensation expense of $nil (2010 - $104,352) for stock options vested during the period.

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	-	1.46%
Expected life of options	-	3.58 years
Expected dividend yield	-	0%
Expected stock price volatility	-	136.77%
Fair value of options per share	-	$0.08

e) Warrants

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

	Number of Warrants	Weighted Average Exercise Price
	#	$
Balance, August 1, 2010	-	-
Granted	930,000	0.10
Balance, July 31, 2011 and October 31, 2011	930,000	0.10

Warrants outstanding at October 31, 2011 are as follows:

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

(Expressed in Canadian Dollars)

8. Share Capital and Reserves - (continued)

f) Escrow

As at October 31, 2011, nil (July 31, 2011 – nil; August 1, 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.

g) Earnings (Loss) per Share

Three months ended October 31,	2011	2010
	$	$
Earnings (Loss) Per Share		
Basic	-	0.01
Diluted	-	0.01
Earnings (Loss) for the Period	(72,772)	560,763
	#	#
Weighted Average Number of Shares		
Basic	43,474,999	39,439,056
Diluted	43,474,999	39,439,056

9. Related Party Transactions

a) Related party transactions

i) The Company incurred the following transactions with a company that is controlled by an officer of the Company:

Three months ended October 31,	2011	2010
	$	$
Legal fees	-	1,001
	-	1,001

(Expressed in Canadian Dollars)

9. Related Party Transactions – (continued)

a) Related party transactions – (continued)

ii) The Company recovered expenses from companies having directors and offices in common:

Three months ended October 31,	2011	2010
	$	$
Office, rent and administration	54,400	47,600

b) Compensation of key management personnel

The Company's key management personnel has authority and responsibility for planning, directing and controlling the activities of the Company and consists of its Directors, Chief Executive Officer and Chief Financial Officer.

Three months ended October 31,	2011	2010
	$	$
Short-term benefits - management fees	16,200	16,200
Share-based compensation	-	59,492
	16,200	75,692

c) Related party balances

The following related party amounts were included in (i) accounts payable and accrued liabilities, (ii) due to related parties and (iii) amounts receivable:

	October 31, 2011	July 31, 2011	August 1, 2010
	$	$	$
Companies having directors and officers in common *(i)*	9,000	9,000	19,304
Companies controlled by a director and an officer of the Company *(ii)*	-	-	6,395
Companies having directors and officers in common *(iii)*	6,720	9,826	-

These transactions are in the normal course of operations and are measured at the fair value amount of consideration established and agreed to by the related parties. Any amounts due to related parties are unsecured, non-interest bearing and have no specific repayment terms.

(Expressed in Canadian Dollars)

10. Commitments and Contingencies

a) Contingency

The Company is committed to incur $130,200 in qualifying resource expenditures pursuant to a private placement for which flow-through proceeds have been received (note 8(c)). The Company shall renounce the tax benefits of Canadian exploration expenditures effective December 31, 2011. As at October 31, 2011, the Company incurred qualifying resource expenditures of $87,175. The Company must incur the balance of $43,025 qualifying resource expenditures before December 31, 2011.

b) Operating lease commitment

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

11. Financial Risk Management

a) Fair value of financial instrument

As at October 31, 2011, the Company's financial instruments consist of cash, short-term investments, amounts receivables and accounts payable and accrued liabilities. Cash are classified as fair value through profit and loss and measured at fair value. Amounts receivables are classified as loans and receivables and measured at amortized cost. Accounts payable and accrued liabilities are classified as other financial liabilities and are measured at amortized cost. The fair values of these financial instruments approximate their carrying values because of their short term nature and/or the existence of market related interest rates on the instruments. Fair values were obtained by Level 1 hierarchy inputs.

11. Financial Risk Management – (continued)

b) Financial instrument risk

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:

(i) 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 GICs are with Schedule 1 banks or equivalents, with 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. Amounts receivables consist of harmonized sales tax recoverable of $4,678, interest receivable of $301 and accounts receivable of $38,443. Management considers that risks related to credit are minimal.

(ii) 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 October 31, 2011, the Company had cash and short-term investments of $245,452 to settle accounts payable of $74,765 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 (see note 1).

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.

11. Financial Risk Management – (continued)

b) Financial instrument risk – (continued)

(iii) Market risk

a) 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 October 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 three months ended October 31, 2011, the Company recognized $684 in interest income from its interest bearing investments.

b) Foreign currency risk

Foreign exchange risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of the changes in the foreign exchange rates. 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 October 31, 2011, including cash 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 period ended October 31, 2011. At October 31, 2011, the Company had no hedging agreements in place with respect to foreign exchange rates.

c) 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 properties described in Note 6 of these interim consolidated financial statements from which production is not expected in the near future.

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

(Expressed in Canadian Dollars)

12. 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 three months ended October 31, 2011 and 2010.

13. Segmented Information

The Company operated in the following geographic segments at October 31, 2011:

October 31, 2011	Canada	Mexico	Total
	$	$	$
Total assets	677,671	-	677,671

July 31, 2011	Canada	Mexico	Total
	$	$	$
Total assets	755,054	-	755,054

August 1, 2010	Canada	Mexico	Total
	$	$	$
Total assets	1,799,175	19,426	1,818,601

(Expressed in Canadian Dollars)

13. Segmented Information – (continued)

Three months ended October 31, 2011	Canada	Mexico	Total
	$	$	$
Interest and other income	684	-	684
Income (loss) for the period	(72,772)	-	(72,772)
Cumulative translation adjustment	2,338	-	2,338
Comprehensive income (loss) for the year	(70,434)	-	(70,434)

Three months ended October 31, 2010	Canada	Mexico	Total
	$	$	$
Interest and other income	684	-	684
Income (loss) for the period	561,309	(546)	560,763
Cumulative translation adjustment	(459)	-	(459)
Comprehensive income (loss) for the year	560,850	(546)	560,304

14. Conversion to IFRS

The Company adopted IFRS on August 1, 2011, with the transition date of August 1, 2010 representing the Company's opening IFRS balance sheet. As required by IFRS 1, First-time Adoption of IFRS, the Company will apply the IFRS in effect as at July 31, 2012 on a full retrospective basis, except where permitted or required under an IFRS 1 exemption.

On adoption of IFRS 1, the Company elected to apply the following exemptions:

IFRS 2 "Share-based Payment" has not been applied to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The Company has elected not to apply IFRS 2 to awards that vested prior to August 1, 2010 (date of transition date to IFRS), which have been accounted for in accordance with GAAP.

IFRS 1 also outlines specific guidelines that a first-time adopter must adhere to under certain circumstances. The Company has applied the following guidelines to its opening balance sheet dated August 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 at August 1, 2010 were consistent with its previous estimates under GAAP for the same date.

14. Conversion to IFRS – (continued)

In preparing its IFRS condensed consolidated financial statements, the Company has adjusted amounts reported previously in financial statements prepared in accordance with GAAP. An explanation of how the transition from previous GAAP to IFRS affected the Company's financial position and results is set out in the following notes and accompanying tables.

(a) Reserves

Under GAAP, amounts recorded in relation to the fair value of stock options granted and warrants issued were recorded to contributed surplus. Under IFRS, these amounts have been reclassified within equity as either stock option or warrant reserves.

(b) Share-based payments

Under GAAP, the Company recognized an expense related to share-based payments on a straight-line basis through the date of full vesting and did not incorporate a forfeiture multiple on the grant date. Under IFRS, the Company is required to recognize the expense over the individual vesting periods for the graded vesting awards and estimate a forfeiture rate.

The Company has elected not to retrospectively apply IFRS 2 to equity instruments that were granted and had vested before the transition date. As a result of applying this exemption, the Company will apply the provision of IFRS 2 only to all outstanding equity instruments that were unvested as at August 1, 2010. Accordingly, upon transition to IFRS, the Company recorded a fair value adjustment of $6,917 as at August 1, 2010 to decrease reserves with a corresponding decrease in deficit. In addition to the August 1, 2010 adjustment, the IFRS adjustments subsequent to transition increased reserves and net loss by $8,630 for the year ended July 31, 2011 and by $51,730 for the three months ended October 31, 2010.

(c) Flow-through shares

Under GAAP, the full proceeds received from the issuance of the flow-through shares was recorded to share capital and a share issuance expense related to the deferred tax liability was recorded at the time the eligible expenditures were renounced to investors.

Under IFRS, the premium paid for flow-through shares in excess of the value of common shares with no flow-through feature is credited to a deferred liability account. As eligible expenditures are incurred, the deferred gain is amortized into earnings for the period.

Additionally, as it is the Company's policy to capitalize mineral property expenditures, a deferred tax liability and expense are recorded as the eligible expenditures are incurred and renounced to the flow-through shareholders. At the same time as the deferred tax liability is recorded, the Company releases a corresponding amount of its deferred income tax asset valuation allowance resulting in an equal and offsetting reduction to the deferred tax liability and expense.

The transition had no impact on the Company's previously reported consolidated financial statements at August 1, 2010, October 31, 2010 and July 31, 2011.

14. Conversion to IFRS – (Continued)

(d) Forfeited or expired options and warrants

Under GAAP, the Company's policy was to leave the value recorded for forfeited or expired unexercised stock options and warrants in contributed surplus.

On transition to IFRS, the Company elected to change its accounting policy for the treatment of forfeited or expired unexercised options and warrants whereby amounts recorded for forfeited or expired unexercised stock options and warrants are transferred to deficit or share capital, respectively.

Accordingly, upon conversion to IFRS, the value assigned to forfeited options of $534,334 and warrants of $91,740 had been reclassified from reserves to deficit and share capital respectively as at August 1, 2010. In addition to the August 1, 2010 adjustment, the value assigned to forfeited options of $332,119 had been reclassified from reserves to deficit as at October 31, 2010 and July 31, 2011.

(e) Functional currency and cumulative translation adjustment account

Under GAAP, the Company determines whether a subsidiary is an integrated operation or a self-sustaining entity which determines the method of translation into the presentation currency of the Company. IFRS requires that an entity determine the functional currency of each subsidiary individually, prior to consolidation into the Company's presentation currency.

The Company determined that its subsidiary had a functional currency other than the Canadian dollar, which under GAAP had been classified as being integrated operations. The subsidiary under GAAP was consolidated using the temporal method (i.e. monetary assets and liabilities translated at the current rate and non-monetary assets and liabilities at historic exchange rates with gains or losses being charged to income), whereas under IFRS the entity with non-Canadian dollar functional currency is translated to Canadian dollar using the current rate method (whereby all assets and liabilities are translated using the reporting date exchange rates with any gains or losses recorded in equity).

The Company elected to take the IFRS 1 exemption to deem cumulative translation adjustments to be zero at the date of transition to IFRS. Hence, all existing currency translation adjustment ("CTA") balances and the impact of the above adjustments as of August 1, 2010 were recorded against the brought forward deficit.

For the year ended July 31, 2011, the impact was an increase in net loss by $12, offset by a charge to CTA and for the three months ended October 31, 2010, the impact was a decrease in net loss by $459.

(Expressed in Canadian Dollars)

14. Conversion to IFRS – (Continued)

IFRS Reconciliation of Statements of Financial Position

		As at August 1, 2010			As at October 31, 2010			As at July 31, 2011		
	Note	GAAP	Effect of Conversion to IFRS	**IFRS**	GAAP	Effect of Conversion to IFRS	**IFRS**	GAAP	Effect of Conversion to IFRS	**IFRS**
		$	$	**$**	$	$	**$**	$	$	**$**
Assets										
Current										
Cash		101,273	-	**101,273**	69,013	-	**69,013**	165,037	-	**165,037**
Short-term Investments		205,000	-	**205,000**	620,000	-	**620,000**	250,000	-	**250,000**
Amounts receivable		3,180	-	**3,180**	5,304	-	**5,304**	13,318	-	**13,318**
Prepaid expenses		21,101	-	**21,101**	20,649	-	**20,649**	21,246	-	**21,246**
Investments		1,448,218	-	**1,448,218**	-	-	**-**	-	-	**-**
		1,778,772	-	**1,778,772**	714,966	-	**714,966**	449,601	-	**449,601**
Equipment		39,829	-	**39,829**	38,067	-	**38,067**	16,316	-	**16,316**
Exploration and evaluation assets		-	-	**-**	-	-	**-**	289,137	-	**289,137**
		39,829	-	**39,829**	38,067	-	**38,067**	305,453	-	**305,453**
		1,818,601	-	**1,818,601**	753,033	-	**753,033**	755,054	-	**755,054**

(Expressed in Canadian Dollars)

14. Conversion to IFRS – (Continued)

IFRS Reconciliation of Statements of Financial Position (Continued)

		As at August 1, 2010			As at October 31, 2010			As at July 31, 2011		
	Note	GAAP	Effect of Conversion to IFRS	**IFRS**	GAAP	Effect of Conversion to IFRS	**IFRS**	GAAP	Effect of Conversion to IFRS	**IFRS**
		$	$	**$**	$	$	**$**	$	$	**$**
Liabilities and Shareholders' Equity										
Current										
Accounts payable and accrued liabilities		86,659	-	**86,659**	73,662	-	**73,662**	81,714	-	**81,714**
Due to related parties		6,395	-	**6,395**	12,528	-	**12,528**	-	-	**-**
Loans payable		999,377	-	**999,377**	-	-	**-**	-	-	**-**
		1,092,431	-	**1,092,431**	86,190	-	**86,190**	81,714	-	**81,714**
Shareholders' equity										
Share capital	(d)	11,617,441	91,740	**11,709,181**	11,617,441	91,740	**11,709,181**	11,979,085	91,740	**12,070,825**
Reserves	(a)(b)	-	1,893,836	**1,893,836**	-	941,627	**941,627**	-	945,587	**945,587**
Contributed surplus	(a)(b)(d)	1,802,844	(1,802,844)	**-**	1,855,466	(1,855,466)	**-**	1,902,055	(1,902,055)	**-**
Accumulated other comprehensive income	(a)	723,983	(723,983)	**-**	-	-	**-**	-	-	**-**
Deficit	(b)(d)	(13,418,098)	541,251	**(12,876,847)**	(12,806,064)	822,099	**(11,983,965)**	(13,207,800)	864,728	**(12,343,072)**
		726,170	-	**726,170**	666,843	-	**666,843**	673,340	-	**673,340**
		1,818,601	**-**	**1,818,601**	753,033	**-**	**753,033**	755,054	**-**	**755,054**

(Expressed in Canadian Dollars)

14. Conversion to IFRS – (Continued)

Reconciliation of Statements of Income (Loss) and Comprehensive Income (Loss)

	Note	Three months ended October 31, 2010			Year ended July 31, 2011		
		GAAP	Effect of Transition to IFRS	**IFRS**	GAAP	Effect of Transition to IFRS	**IFRS**
		$	$	**$**	$	$	**$**
Expenses							
Depreciation		1,762	-	**1,762**	7,196	-	**7,196**
Consulting fees		6,394	-	**6,394**	33,544	-	**33,544**
Management fees		16,200	-	**16,200**	64,800	-	**64,800**
Office, rent and administration		4,623	-	**4,623**	36,474	-	**36,474**
Professional fees		2,511	-	**2,511**	24,389	-	**24,389**
Regulatory, transfer agent and shareholder information		2,862	-	**2,862**	41,353	-	**41,353**
Share-based payments	(b)	52,622	51,730	**104,352**	100,056	8,630	**108,686**
Travel, advertising and promotion		12,896	-	**12,896**	111,941	-	**111,941**
Wages and benefits		22,717	-	**22,717**	89,267	-	**89,267**
		122,587	51,730	**174,317**	509,020	8,630	**517,650**
Loss before other items		(122,587)	(51,730)	**(174,317)**	(509,020)	(8,630)	**(517,650)**
Other Items							
Finance income		14,085	-	**14,085**	16,737	-	**16,737**
Finance and other costs		(2,600)	-	**(2,600)**	(1,152)	-	**(1,152)**
Foreign exchange loss	(e)	(847)	459	**(388)**	(3,023)	(12)	**(3,035)**
Impairment of equipment		-	-	**-**	(17,227)	-	**(17,227)**
Gain on sale of investments		723,983	-	**723,983**	723,983	-	**723,983**
		734,621	459	**735,080**	719,318	(12)	**719,306**
Earnings for the period		612,034	(51,271)	**560,763**	210,298	(8,642)	**201,656**
Other comprehensive income (loss)							
Cumulative translation adjustment	(e)	-	(459)	**(459)**	-	12	**12**
Income and comprehensive income for the period		612,034	(51,730)	**560,304**	210,298	(8,630)	**201,668**

(Expressed in Canadian Dollars)

14. Conversion to IFRS – (Continued)

Reconciliation of Statements of Cash Flow

		Three months ended October 31, 2010			Year ended July 31, 2011		
	Note	GAAP	Effect of Transition to IFRS	**IFRS**	GAAP	Effect of Transition to IFRS	**IFRS**
		$	$	**$**	$	$	**$**
Operating Activities							
Income for the period		612,034	(51,271)	**560,763**	210,298	(8,642)	**201,656**
Adjustments for non-cash items							
Depreciation		1,762	-	**1,762**	7,196	-	**7,196**
Share-based payments	(b)	52,622	51,730	**104,352**	100,056	8,630	**108,686**
Impairment of equipment		-	-	**-**	17,227	-	**17,227**
Gain on sale of investments		(723,983)	-	**(723,983)**	(723,983)	-	**(723,983)**
Foreign exchange gain (loss)	(e)	-	(459)	**(459)**	-	12	**12**
Changes in Non-Cash Working Capital Items							
Amounts receivable		(2,124)	-	**(2,124)**	(10,138)	-	**(10,138)**
Prepaid expenses		452	-	**452**	(145)	-	**(145)**
Accounts payable and accrued liabilities		(12,997)	-	**(12,997)**	(15,945)	-	**(15,945)**
		(72,234)	-	**(72,234)**	(415,434)	-	**(415,434)**
Investing Activities							
Purchase of short-term investments		(415,000)	-	**(415,000)**	(45,000)	-	**(45,000)**
Proceeds from disposal of investments		1,448,218	-	**1,448,218**	1,448,218	-	**1,448,218**
Purchase of equipment		-	-	**-**	(910)	-	**(910)**
Exploration and evaluation assets		-	-	**-**	(68,137)	-	**(68,137)**
		1,033,218	-	**1,033,218**	1,334,171	-	**1,334,171**
Financing Activities							
Due to related parties		6,133	-	**6,133**	(6,395)	-	**(6,395)**
Repayment of loans		(999,377)	-	**(999,377)**	(999,377)	-	**(999,377)**
Shares issued for cash		-	-	**-**	150,799	-	**150,799**
		(993,244)	-	**(993,244)**	(854,973)	-	**(854,973)**
Increase (decrease) in cash		(32,260)	-	**(32,260)**	63,764	-	**63,764**
Cash, beginning of period		101,273	-	**101,273**	101,273	-	**101,273**
Cash, end of period		69,013	-	**69,013**	165,037	-	**165,037**