REMSTAR RESOURCES LTD.

(An Exploration Stage Company)

CONSOLIDATED FINANCIAL STATEMENTS

Years ended July 31, 2012 and 2011

(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 International Financial Reporting Standards 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 Board fulfills these responsibilities by reviewing the financial information prepared by management and discussing relevant matters with management and external auditors. 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 Board is also responsible for recommending the appointment of Remstar Resources Ltd.'s external auditors.

We draw attention to Note 1 in the consolidated financial statements which indicates the existence of a material uncertainty that may cast significant doubt on the Company's ability to continue as a going concern.

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 the Board, the Audit Committee and management to discuss their audit findings.

November 28, 2012

"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 accompanying financial statements of Remstar Resources Ltd. and its subsidiary, which comprise the statement of financial position as at July 31, 2012, July 31, 2011, and August 1, 2010, and the statements of comprehensive loss, changes in equity, and cash flows for the years ended July 31, 2012 and 2011, 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 International Financial Reporting Standards, 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 audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the 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 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. and its subsidiary as at July 31, 2012, July 31, 2011, and August 1, 2010, and the results of their financial performance and their cash flows for the years ended July 31, 2012 and 2011, in accordance with International Financial Reporting Standards.

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, indicates 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

November 28, 2012
Vancouver, BC

REMSTAR RESOURCES LTD.
(An Exploration Stage Company)

Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

	July 31, 2012	July 31, 2011 (Note 17)	August 1, 2010 (Note 17)
	$	$	$
ASSETS			
Current			
Cash and cash equivalents (notes 4 & 18)	17,452	415,037	306,273
Amounts receivable (notes 11 & 14(b))	28,326	13,318	3,180
Prepaid expenses	20,775	21,246	21,101
Investments (note 5)	-	-	1,448,218
	66,553	449,601	1,778,772
Equipment (note 6)	9,413	16,316	39,829
	75,966	465,917	1,818,601
LIABILITIES			
Current			
Accounts payable and accrued liabilities (notes 8, 11 & 18)	95,799	81,714	93,054
Loans payable (note 9)	-	-	999,377
	95,799	81,714	1,092,431
SHAREHOLDERS' EQUITY			
Share capital (note 10)	12,086,575	12,070,825	11,709,181
Reserves (note 10)	806,088	945,575	1,893,836
Deficit	(12,912,496)	(12,632,197)	(12,876,847)
	(19,833)	384,203	726,170
	75,966	465,917	1,818,601

Nature of operations and going concern (note 1)
Commitments (note 12)
Subsequent events (note 19)

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

REMSTAR RESOURCES LTD.

(An Exploration Stage Company)

Consolidated Statements of Comprehensive Loss
(Expressed in Canadian Dollars)

	2012	Years ended July 31, 2011 (Note 17)
	$	$
Expenses:		
Exploration and evaluation (note 7(a))	140,282	289,137
General and administrative		
Bank charges	1,249	1,152
Consulting fees	56,017	33,544
Depreciation (note 6)	2,422	7,196
Management fees (note 11)	64,800	64,800
Office, rent and administration (notes 11)	5,385	36,474
Professional fees	12,630	24,389
Regulatory, transfer agent and shareholder information	22,406	41,353
Share-based payments (note 11)	25,198	108,686
Travel, advertising and promotion (note 11)	23,761	111,941
Wages and benefits (note 11 & 14(b))	90,426	89,267
	444,576	807,939
Loss before other items	(444,576)	(807,939)
Other items:		
Foreign exchange gain (loss)	3,561	(3,023)
Finance and other income	1,111	16,737
Impairment of equipment (note 6)	(5,080)	(17,227)
Gain on sale of investments (note 5)	-	723,983
	(408)	720,470
Net comprehensive loss for the year	(444,984)	(87,469)
Basic and diluted loss per share	(0.01)	-
Weighted average number of shares	43,485,040	39,586,934

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

REMSTAR RESOURCES LTD.
(An Exploration Stage Company)

Consolidated Statements of Changes in Equity
(Expressed in Canadian Dollars)

	Notes	Share capital		Reserves				Deficit	Total shareholders' equity
		Common shares	Amount	Stock options	Available for sale financial assets	Treasury shares	Total		
		#	$	$	$	$	$	$	$
Balance, August 1, 2010	17	39,439,056	11,709,181	1,169,853	723,983	-	1,893,836	(12,876,847)	726,170
Net comprehensive loss for the year		-	-	-	-	-	-	(87,469)	(87,469)
Exercise of options	10(c)	220,000	73,265	(51,265)	-	-	(51,265)	-	22,000
Escrow shares cancelled	10(f)	(144,057)	(50,420)	-	-	50,420	50,420	-	-
Forfeited options	17	-	-	(332,119)	-	-	(332,119)	332,119	-
Gain on available-for-sale investments transferred to net earnings (loss)	5	-	-	-	(723,983)	-	(723,983)	-	(723,983)
Share-based payments	10(d)	-	-	108,686	-	-	108,686	-	108,686
Private placement	10(c)	1,860,000	130,200	-	-	-	-	-	130,200
Share issue costs	10(c)	-	(1,401)	-	-	-	-	-	(1,401)
Finder's fees	7(a)	100,000	10,000	-	-	-	-	-	10,000
Share issued pursuant to option agreement	7(a)	2,000,000	200,000	-	-	-	-	-	200,000
Balance, July 31, 2011	17	43,474,999	12,070,825	895,155	-	50,420	945,575	(12,632,197)	384,203
Net comprehensive loss for the year		-	-	-	-	-	-	(444,984)	(444,984)
Share-based payments	10(d)	-	-	25,198	-	-	25,198	-	25,198
Forfeited options	10(d)	-	-	(164,685)	-	-	(164,685)	164,685	-
Finder's fees	7(a)	25,000	750	-	-	-	-	-	750
Share issued pursuant to option agreement	7(a)	500,000	15,000	-	-	-	-	-	15,000
Balance, July 31, 2012		43,999,999	12,086,575	755,668	-	50,420	806,088	(12,912,496)	(19,833)

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, 2012	2011 (Note 17)
	$	$
Cash provided by (used in):		
Operating activities:		
Net loss for the year	(444,984)	(87,469)
Items not involving cash:		
Depreciation	2,422	7,196
Share-based payments	25,198	108,686
Shares issued for exploration and evaluation	15,750	221,000
Impairment of equipment	5,080	17,227
Gain on sale of investments	-	(723,983)
	(396,534)	(457,343)
Changes in non-cash working capital balances:		
Amounts receivable	(15,008)	(10,138)
Prepaid expenses	471	(145)
Accounts payable and accrued liabilities	14,085	(15,945)
	(396,986)	(483,571)
Investing activities:		
Proceeds from disposal of investments	-	1,448,218
Purchase of equipment	(599)	(910)
	(599)	1,447,308
Financing activities:		
Due to related parties	-	(6,395)
Repayment of loans	-	(999,377)
Shares issued for cash	-	150,799
	-	(854,973)
(Decrease) increase in cash and cash equivalents during the year	(397,585)	108,764
Cash and cash equivalents, beginning of the year	415,037	306,273
Cash and cash equivalents, end of the year	17,452	415,037
Supplementary information:		
Cash paid for interest	-	-
Cash paid for income taxes	-	-
Non-cash financing activities:		
Transfer of reserve upon exercise of stock options	-	51,265

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.

These consolidated financial statements have been prepared using accounting policies applicable to a going concern which contemplate the realization of assets and settlement of liabilities in the normal course of business. At July 31, 2012, the Company had not yet achieved profitable operations, had accumulated losses of $12,912,496 (July 31, 2011 - $12,632,197), working capital deficit of $29,246 (July 31, 2011 – working capital surplus of $367,887) and expects to incur further losses in the development of its business. The Company will be required to raise additional capital in order to maintain its option obligations and fund working capital requirements. While the Company has been successful in the past, there is no assurance that it will be able to obtain adequate financing or that such financing will be available on acceptable terms. If the Company is unable to obtain adequate additional financing, the Company will be required to curtail operations, exploration and development activities. These material uncertainties cast significant doubt on the entity's ability to continue as a going concern. Subsequent to July 31, 2012, the Company raised $50,000 through a third party loan.

These consolidated financial statements do not give effect to adjustments that would be necessary should the Company be unable to continue as a going concern and, therefore, be required to realize its assets and liquidate its liabilities and commitments other than the normal course of operations, and at amounts different from those in the accompanying consolidated financial statements.

2. Significant Accounting Policies

The consolidated financial statements were authorized for issue on November 28, 2012 by the Directors of the Company. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements.

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

The financial statements represent the first annual financial statements of the Company prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and the interpretations of the International Financial Reporting Interpretations Committee ("IFRIC") effective for the Company's reporting period ended July 31, 2012.

2. Significant Accounting Policies – (continued)

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

The disclosures related to the transition from Canadian Generally Accepted Accounting Principles ("GAAP") to IFRS are included in note 17 to these consolidated financial statements. Note 17 contains reconciliations and descriptions of the effect of the transition from GAAP to IFRS on equity, comprehensive loss along with reconciliations of the consolidated statements of financial position as at July 31, 2011 and August 1, 2010 and the consolidated statements of comprehensive loss for the year ended July 31, 2011. The first date at which IFRS was applied was August 1, 2010.

(b) Basis of Presentation and Consolidation

The consolidated financial statements are presented in Canadian dollars unless otherwise noted. The 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 consolidated financial statements of the Company have been prepared on a historical cost basis.

(c) Use of Estimates and Judgments

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets, liabilities and contingent liabilities as at the date of the consolidated financial statements, and the reported amount of revenues and expenses during the reporting period. Estimates and judgments 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. Actual results may differ from these estimates.

The key sources of estimation uncertainty that have a significant risk of causing material adjustment to the amounts recognized in the consolidated financial statements are as follows:

Share-based Payments

The Company has an equity-settled share-based scheme for directors, officers, employees and consultants. Services received, and the corresponding increase in equity, are measured by reference to the fair value of the equity instruments at the date of the grant, excluding the impact of any non-market vesting conditions. The fair value of share options are estimated by using the Black-Scholes model on the date of the grant based on certain assumptions. Those assumptions are described in Note 10(d) and include, among others, expected volatility, expected life of the options and number of options expected to vest. Where vesting conditions exist for share options, the Board reviews progress against those vesting conditions annually and reviews the estimated date of the financial close of project which will impact the financial statements. In the event that milestone conditions are not met, it is anticipated that certain options will lapse.

2. Significant Accounting Policies – (continued)

(c) Use of Estimates and Judgments – (continued)

Useful Lives of Equipment

The Company estimates the useful lives of equipment based on the period over which the assets are expected to be available for use. The depreciation method and useful lives reflect the pattern in which management expects the asset's future economic benefits to be consumed by the Company. The amounts and timing of recorded expenses for any period would be affected by changes in assumptions and estimates used.

Taxes

Significant management judgment is required to determine the amount of deferred tax assets that can be recognized, based upon the likely timing and the level of future taxable income realized, including the usage of tax planning strategies.

Decommissioning Liabilities

The Company recognizes the liability for statutory, contractual, constructive or legal obligations, including those associated with the reclamation of mineral properties, when those obligations result from the exploration or development of its properties. The Company assesses its provision for site reclamation at each reporting date. Significant estimates and assumptions are made in determining the provision for site reclamation as there are numerous factors that will affect the ultimate liability payable. These factors include estimates of the extent and costs of rehabilitation activities, technological changes, regulatory changes, cost increases as compared to inflation rates, and discount rates. Those uncertainties may result in future actual expenditures differing from the amounts currently provided. The provision at the reporting date represents management's best estimate of the present value of the future reclamation costs required.

(d) Functional and Presentation of Foreign Currency

The financial statements are presented in Canadian dollars unless otherwise noted. The presentation currency and functional currency of the Company and its subsidiary is the Canadian dollar.

(e) Cash and Cash Equivalents

Cash and cash equivalents consist of cash balances and highly liquid investments having maturities of three months or less from the date of purchase which are readily convertible into cash and that are subject to an insignificant risk of changes in value. The Company's cash and cash equivalents are invested with major financial institutions in business and savings accounts which are readily available on demand by the Company.

(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

2. Significant Accounting Policies – (continued)

(g) Exploration and Evaluation Expenditures

Exploration and evaluation activity begins when the Company obtains legal rights to explore a specific area and involves the search for mineral reserves, the determination of technical feasibility and the assessment of commercial viability of an identified mineral resource. Expenditures incurred in the exploration and evaluation phase include the cost of acquiring interests in mineral rights, licenses and properties and the costs of the Company's exploration activities, such as researching and analyzing existing exploration data, gathering data through geological studies, exploratory drilling, trenching, sampling, and certain feasibility studies.

Exploration and evaluation expenditures incurred prior to the determination of commercially viable mineral resources, the feasibility of mining operations and a positive development decision are expensed as incurred. Mineral property acquisition costs and development expenditures incurred subsequent to such a determination are capitalized and amortized over the estimated life of the property following the commencement of commercial production, or are written off if the property is sold, allowed to lapse or abandoned or when an impairment is determined to have occurred.

(h) Provisions

Decommissioning Obligations

A 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 the same amount. Subsequently, these capitalized decommissioning costs will be depreciated over the life of the related assets. 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 July 31, 2012, July 31, 2011 and August 1, 2010, the Company has determined that it does not have material decommissioning obligations as the disturbance to date is minimal.

Other Provisions

Provisions are recognized for liabilities of uncertain timing or amount that have arisen as a result of past transactions, including legal or constructive obligations. The provision is measured at the best estimate of the expenditure required to settle the obligation at the reporting date.

(i) Impairment of Non-financial Assets

The carrying amount of the Company's non-financial assets (which include equipment) is reviewed at each financial 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 profit and loss for the period.

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.

2. Significant Accounting Policies – (continued)

(i) Impairment of Non-financial Assets – (continued)

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. An impairment loss with respect to goodwill is never reversed.

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

(j) Share Capital

Transaction 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 in reserves 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 has an employee stock option plan. Share-based payments to employees are measured at the fair value of the stock options at the grant date and amortized to expense 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 in equity as a stock option reserve. The fair value of options is determined using a Black–Scholes option pricing model which incorporates all market vesting conditions. The number of 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. Amounts recorded for forfeited or expired unexercised options are reversed in the period the forfeiture occurs.

(l) 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.

All potential dilutive common shares are anti-dilutive for the years presented.

(m) Financial Instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or equity instrument to another entity. Financial assets and financial liabilities are recognized on the consolidated statements of financial position at the time the Company becomes a party to the contractual provisions. Upon initial recognition, financial instruments are measured at fair value. Measurement in subsequent periods is dependent on the classification of the financial instrument. 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 other financial liabilities.

2. Significant Accounting Policies – (continued)

(m) Financial Instruments – (continued)

Non-derivative Financial Assets

(i) Financial Assets and Liabilities at Fair Value through Profit and Loss

Financial assets and liabilities at fair value through profit and loss are either 'held-for-trading' or classified at fair value through profit or loss. Financial assets are designated at fair value through profit or loss if it eliminates or significantly reduces an accounting mismatch, the Company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the Company's documented risk management or investment strategy or the financial asset contains one or more embedded derivatives. They are initially and subsequently measured at fair value and changes in fair value are recognized in profit or loss for the period.

The Company does not have any financial assets at fair value through profit and loss.

(ii) Loans and Receivables

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. They 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.

The Company has designated its cash and cash equivalents and amounts receivable as loans and receivables.

(iii) Held-to-Maturity

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, using the effective interest method, less any impairment losses.

The Company does not have any held-to-maturity financial assets.

(iv) Available-for-Sale

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not classified in any other financial asset categories. They are initially and subsequently measured at fair value and the changes in fair value, other than impairment losses and foreign currency differences on available-for-sale debt instruments, are recognized in other comprehensive income (loss) and presented within equity in accumulated other comprehensive income. When the financial assets are sold or an impairment write-down is required, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

The Company does not have any available-for-sale financial assets.

2. Significant Accounting Policies – (continued)

(m) Financial Instruments – (continued)

Non-derivative Financial Liabilities

All financial liabilities are recognized initially at fair value plus any directly attributable transaction costs on the date at which the Company becomes a party to the contractual provisions of the instrument. Subsequent to initial recognition, the Company's financial liabilities are measured at amortized cost using the effective interest method. The Company derecognizes a financial liability when its contractual obligations are discharged, cancelled or expire.

The Company's non-derivative financial liabilities include its accounts payable and accrued liabilities which are designated as other liabilities.

Impairment of Financial Assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is impaired if objective evidence indicates that a loss event has occurred after the initial recognition of the asset, and that the loss event had a negative effect on the estimated future cash flows of that asset that can be estimated reliably.

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the assets' original effective interest rate. Losses are recognized in profit or loss with a corresponding reduction in the financial asset, or in the case of amounts receivable are reflected in an allowance account against receivables. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

(n) 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 comprehensive loss as other income with a corresponding reduction to the flow through premium 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.

(o) Income Taxes

Income tax expense comprises current and deferred income tax. Income tax is recognized in the consolidated statement of comprehensive income (loss) except to the extent it relates to items recognized in other comprehensive income or directly in equity.

2. Significant Accounting Policies – (continued)

(o) Income Taxes - (continued)

Current Income Tax

Current income tax expense is based on the results for the period as adjusted for items that are not taxable or not deductible. Current income tax is calculated using tax rates and laws that were enacted or substantively enacted at the end of the reporting period. Management periodically evaluates positions taken in tax returns with respect to situations in which applicable tax regulation is subject to interpretation. Provisions are established where appropriate on the basis of amounts expected to be paid to the tax authorities.

Deferred Income Tax

Deferred income taxes are the taxes expected to be payable or recoverable between the carrying amounts of assets in the consolidated statement of financial position and their corresponding tax bases used in the computation of taxable profit, and are accounted for using the balance sheet liability method. Deferred tax liabilities are generally recognized for all taxable temporary differences between the carrying amounts of assets and their corresponding tax bases. Deferred tax assets are recognized to the extent that it is probable that taxable profits will be available against which deductible temporary differences can be utilized. Such assets and liabilities are not recognized if the temporary difference arises from the initial recognition of goodwill or from the initial recognition (other than in a business combination) of other assets in a transaction that affects neither the taxable profit nor the accounting profit.

Deferred Income Tax Liabilities:

- are generally recognized for all taxable temporary differences;
- are recognized for taxable temporary differences arising on investments in subsidiaries except where the reversal of the temporary difference can be controlled and it is probable that the difference will not reverse in the foreseeable future; and
- are not recognized on temporary differences that arise from goodwill which is not deductible for tax purposes.

Deferred Income Tax Assets:

- are recognized to the extent it is probable that taxable profits will be available against which the deductible temporary differences can be utilized; and
- are reviewed at the end of the reporting period and reduced to the extent that it is no longer probable that sufficient taxable profits will be available to allow all or part of an asset to be recovered.

3. Recent Accounting Pronouncements

The following IFRS standards have been recently issued by the IASB or the IFRIC. Pronouncements that are not applicable or do not have a significant impact to the Company have been excluded herein. The Company is assessing the impact of these new standards, but does not expect them to have a significant effect on the financial statements.

3. Recent Accounting Pronouncements – (continued)

(a) IFRS 7, Financial Instruments: Disclosures and IAS 32, Financial Instruments: Presentation

The IASB has issued amendments to IFRS 7, Financial Instruments: Disclosures ("IFRS 7") and IAS 32, Financial Instruments: Presentation, requiring incremental disclosures and clarify an entity's ability to offset financial assets and financial liabilities. These amendments to IFRS 7 are effective for annual periods beginning on or after January 1, 2013 and the amendments to IAS 32 are applicable for annual periods beginning on or after January 1, 2014. The Company does not expect the implementation to have a material impact on the Company's disclosures.

(b) IFRS 9, Financial Instruments

The IASB has issued a new standard, IFRS 9, "Financial Instruments" ("IFRS 9"), which will ultimately replace IAS 39, "Financial Instruments: Recognition and Measurement" ("IAS 39"). The replacement of IAS 39 is a multi-phase project with the objective of improving and simplifying the reporting for financial instruments and the issuance of IFRS 9 is part of the first phase of this project. IFRS 9 uses a single approach to determine whether a financial asset or liability is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. For financial assets, 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. IFRS 9 requires a single impairment method to be used, replacing multiple impairment methods in IAS 39. For financial liabilities measured at fair value, fair value changes due to changes in an entity's credit risk are presented in other comprehensive income. IFRS 9 is effective for annual periods beginning on or after January 1, 2015. The Company does not expect the implementation to have a material impact on the Company's results of operations, financial position and disclosures.

(c) IFRS 10, Consolidated Financial Statements

In 2011, the IASB issued IFRS 10, Consolidated Financial Statements ("IFRS 10"), which replaces parts of IAS 27, Consolidated and Separate Financial Statements ("IAS 27") and all of SIC-12 Consolidation – Special Purpose Entities, changes the definition of control which is the determining factor in whether an entity should be consolidated. Under IFRS 10, an investor controls an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. The Company intends to adopt IFRS 10 in its financial statements for the annual period beginning on August 1, 2013.

(d) IFRS 11, Joint Arrangements

In May 2011, the IASB issued IFRS 11 which replaces IAS 31, Interest in Joint Ventures and SIC-13 Jointly Controlled Entities – Non-monetary Contributions by Venturers, requires a venture to classify its interest in a joint operator to recognize its assets, liabilities, revenue and expenses, and/or its relative share thereof. For a joint venture, the joint venturer will account for its interest in the venture's net assets using the equity method of accounting. The choice to proportionally consolidate joint ventures is prohibited. This new standard is applicable for accounting periods beginning January 1, 2013.

(e) IFRS 12, Disclosure of Interests in Other Entities

In May 2011, the IASB issued IFRS 12, a new and comprehensive standard on disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off-balance sheet vehicles. The required disclosures aim to provide information in order to enable users to evaluate the nature of and the risks associated with an entity's interest in other entities and the effects of those interests on the entity's financial position, financial performance and cash flows. The Company intends to adopt IFRS 12 in its financial statements for the annual period beginning on August 1, 2013.

3. Recent Accounting Pronouncements – (continued)

(f) IFRS 13, Fair Value Measurement

In May 2011, the IASB issued IFRS 13 which replaces the fair value measurement guidance contained in individual IFRSs with a single source of fair value measurement guidance. It defines fair value as the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date, i.e. an exit price. The standard also establishes a framework for measuring fair value and sets out disclosure requirements for fair value measurements to provide information that enables financial statement users to assess the methods and inputs used to develop fair value measurements and, for recurring fair value measurements that use significant unobservable inputs (Level 3), the effect of the measurements on profit or loss or other comprehensive income. The Company intends to adopt IFRS 13 in its financial statements for the annual period beginning on August 1, 2013.

(g) IAS 1, Presentation of Items of Other Comprehensive Income

The IASB has issued amendments to IAS 1 which require entities to group items presented in other comprehensive income ("OCI") on the basis of whether they might at some point be reclassified from OCI to profit or loss at a later date when specified conditions are met. By requiring items of OCI to be grouped on this basis, their potential effect on profit or loss in future periods will be clearer. This amendment is effective for annual periods beginning on or after July 1, 2012 and requires full retrospective application. The Company does not expect IAS 1 to have a material impact on the financial statements.

4. Cash and Cash Equivalents

	July 31, 2012	July 31, 2011	August 1, 2010
	$	$	$
Bank balances	17,452	165,037	101,273
Redeemable investments	-	250,000	205,000
Cash and cash equivalents	17,452	415,037	306,273

5. 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

5. 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.

6. 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	24,343	11,977	41,715	78,035
Additions	-	-	599	599
Balance, July 31, 2012	24,343	11,977	42,314	78,634
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	346	-	2,076	2,422
Balance, July 31, 2012	17,575	3,928	25,411	46,914
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, July 31, 2012	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
July 31, 2012	808	-	8,605	9,413

During the year ended July 31, 2012, the Company wrote-off certain equipment in Canada. As a result, an impairment loss of $5,080 was recognized during the year ended July 31, 2012.

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.

7. Exploration and Evaluation Expenditures

(a) Snip and Seebach Properties

The Company entered into an option agreement dated January 12, 2011, as amended on June 17, 2011 and July 25, 2012, whereby the Company has been granted an option to acquire a 100% interest in the Snip and Seebach properties (the "Properties") located in British Columbia.

Under the terms of the amended agreement, the Company may earn a 100% interest in the Properties by making cash payments of $50,000, issuing an aggregate of 4,000,000 common shares over five years and incurring exploration expenditures of $850,000 over four years as follow:

	Cash	Common shares	Exploration expenditures
	$	#	$
On execution of option agreement	50,000 (paid)	-	-
Upon Exchange acceptance	-	2,000,000 (issued)	-
On or before July 25, 2012	-	500,000 (issued)	100,000 (incurred)
On or before July 25, 2013	-	500,000	100,000
On or before July 25, 2014		500,000	325,000
On or before July 25, 2015	-	500,000	325,000
	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, 2012, the Company paid $nil (2011 - $2,500) and issued 25,000 common shares at a fair value of $750 (2011 - 100,000 shares at a fair value of $10,000). Recorded in accounts payable and accrued liabilities at July 31, 2012 was $1,875 (July 31, 2011 - $11,000) which represents the fair value of the remaining 75,000 shares to be issued as at July 31, 2012.

Expenditures incurred by the Company on the Properties are summarized as follows:

	Snip and Seebach, British Columbia
	$
Balance, August 1, 2010	-
Acquisition and option payments:	
Cash consideration	52,500
Common shares	221,000
	273,500
Exploration:	
Geology	15,637
Balance, July 31, 2011	289,137

7. Exploration and Evaluation Expenditures – (continued)

(a) Snip and Seebach Properties – (continued)

	Snip and Seebach, British Columbia
Acquisition and option payments:	
Common shares	6,625
Exploration:	
Geology	86,000
Geophysics	16,250
Mineral concession fees	10,094
Travel and accommodation	21,313
	140,282
Balance, July 31, 2012	429,419

(b) 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).

The Company has no plans to further explore these properties at this time.

8. Accounts Payable and Accrued Liabilties

	July 31, 2012	July 31, 2011	August 1, 2010
	$	$	$
Advance rent receipts	-	6,569	5,213
Due to related parties (note 11)	43,996	9,600	29,323
GST/HST payable	4,959	82	-
Obligation to issue shares (note 7(a))	1,875	11,000	-
Rent deposits	3,250	3,250	3,250
Other payables and accrued liabilities	41,719	51,213	55,268
	95,799	81,714	93,054

9. Loans Payable

The Company negotiated a $1,000,000 credit line facility with an arm's length party which was secured by certain assets of the Company. As at July 31, 2012, $nil (July 31, 2011- $nil, Aug 1, 2010 - $999,377) had been drawn against this credit facility. The repayment of the credit facility was dependent upon sale of certain assets of the Company. During the year ended July 31, 2011, the credit facility was repaid in full.

10. Share Capital and Reserves

(a) Authorized

Unlimited number of voting common shares without par value.

(b) Issued

At July 31, 2012, there were 43,999,999 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 consisted 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 reserves to share capital was recorded on the exercise of these options.

(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.

10. Share Capital and Reserves – (continued)

(d) Stock Options - (continued)

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
Granted	1,375,000	0.10
Cancelled	(1,080,000) [1]	0.10
Balance, July 31, 2012	4,015,000	0.10

[1] During the year ended July 31, 2012, the fair value of 1,080,000 forfeited options of $164,685 was reclassified from reserves to deficit.

Stock options outstanding and exercisable at July 31, 2012 are as follows:

Options Outstanding	Exercise Price	Expiry Date	Options 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
900,000	0.10	October 12, 2020	900,000
1,375,000	0.10	April 26, 2017	515,625
4,015,000			3,155,625

During the year ended July 31, 2012, the Company recorded share-based payments of $25,198 (2011 - $108,686) for the fair value of stock options granted and vested during the year. The weighted average fair value of options granted during the year ended July 31, 2012 was $0.04 (2011 - $0.08) per option.

The fair values of stock options granted were estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	2012	2011
Risk free interest rate	1.36%	1.88%
Expected life of options	3.26 years	5.58 years
Expected dividend yield	0%	0%
Expected stock price volatility	106.69%	119.06%

10. Share Capital and Reserves – (continued)

(e) Warrants

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

	Warrants	Weighted Average Exercise Price
	#	$
Balance, August 1, 2010	-	-
Granted	930,000	0.10
Balance, July 31, 2011 and July 31, 2012	930,000	0.10

Warrants outstanding at July 31, 2012 are as follows:

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

(f) Escrow

As at July 31, 2012, 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.

11. 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:

	2012	2011
	$	$
Legal fees	1,379	4,510

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

	2012	2011
	$	$
Office, rent, administration and wages	360,218	217,100
Advertising and promotion	-	82,140
	360,218	299,240

11. Related Party Transactions – (continued)

(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.

	2012	2011
	$	$
Short-term benefits - management fees	64,800	64,800
Share-based payments [1]	9,641	63,826
	74,441	128,626

[1] Share-based payments are the fair value of options granted and vested to key management personnel under the Company's stock option plan (note 10(d)).

(c) Related Party Balances

The following related party amounts were included in *(i)* accounts payable and accrued liabilities and *(ii)* amounts receivable:

	July 31, 2012	July 31, 2011	August 1, 2010
	$	$	$
Companies having directors and officers in common *(i) (note 8)*	31,900	9,600	22,928
Companies controlled by a director and an officer of the Company *(i) (note 8)*	12,096	-	6,395
Companies having directors and officers in common *(ii)* [1]	17,638 [1]	9,826	-

[1] This amount was received subsequent to July 31, 2012.

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.

12. Commitments

(a) Flow-through Shares

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 10(c)). As at July 31, 2012, the Company incurred qualifying resource expenditures of $123,563.

The Company renounced the tax benefits of Canadian exploration expenditures as at December 31, 2011. As at July 31, 2012, the Company had sufficient deferred tax assets, primarily loss carry-forwards, to reduce the tax effect of the renunciation to $nil.

12. Commitments – (continued)

(b) Operating Lease

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

	$
2013	75,742
2014	76,921
2015	38,971
	191,634

Amount recognized during the year ended July 31, 2012 was $73,259 (2011 - $72,102).

13. Segmented Information

The Company operated in the following geographic segments at July 31, 2012:

July 31, 2012	Canada	Mexico	Total
	$	$	$
Total assets	75,966	-	75,966

July 31, 2011	Canada	Mexico	Total
	$	$	$
Total assets	465,917	-	465,917

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

	2012			**2011**		
	Canada	Mexico	Total	Canada	Mexico	Total
	$	$	$	$	$	$
Finance and other income	1,111	-	1,111	16,737	-	16,737
Net earnings (loss) and total comprehensive earnings (loss) for the year	(447,310)	2,326	(444,984)	(68,056)	(19,413)	(87,469)

14. Financial Instruments and Risk Management

(a) Fair Value of Financial Instruments

IFRS requires disclosures about the inputs to fair value measurements for financial assets and liabilities recorded at fair value, including their classification within a hierarchy that prioritizes the inputs to fair value measurement. The three levels of hierarchy are:

Level 1 - Unadjusted quoted prices in active markets for identical assets or liabilities;
Level 2 - Inputs other than quoted prices that are observable for the asset or liability, either directly or indirectly; and
Level 3 - Inputs for the asset or liability that are not based on observable market data.

As at July 31, 2012, the Company's financial instruments consist of cash, amounts receivables and accounts payable and accrued liabilities. The carrying values of these financial instruments approximate their fair values because of their short term nature and/or the existence of market related interest rates on the instruments.

(b) Financial Instruments 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 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 $28,326 which are not considered past due. Management considers that risks related to credit are minimal. Included in amounts receivable was a provision of $69,440 related to wages recovery from a related company (2011 - $nil).

(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 July 31, 2012, the Company had cash and cash equivalents of $17,452 to settle accounts payable of $53,815 and HST payable of $4,959 which are considered short term and settled within 30 days. Accrued liabilities consist of rent deposits of $12,850, advance rent receipts of $22,300 and obligation to issue shares of $1,875.

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 (note 1).

14. Financial Instruments and Risk Management – (continued)

(b) Financial Instruments Risk

(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 July 31, 2012, the Company's interest bearing assets are cash and cash equivalents. 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, 2012, the Company recognized $1,111 in interest income from its interest bearing investments.

b. 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 7(a) of these financial statements of which production is not expected in the near future.

During the year ended July, 2012 and 2011, there were no changes to the Company's risk exposure or to the Company's policies for risk management.

15. Capital Management

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern such that it can provide returns for shareholders and benefits for other stakeholders. The Company considers the items included in shareholders' equity as capital. The management of the capital structure is based on the funds available to the Company in order to support the acquisition, exploration and development of resource properties and to maintain the Company in good standing with the various regulatory authorities. In order to maintain or adjust its capital structure, the Company may issue new shares, sell assets to settle liabilities or return capital to its shareholders.

The Company 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 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, 2012.

16. Income Taxes

The following table reconciles the expected income taxes expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations for the years ended July 31, 2012 and 2011:

	2012	2011
	$	$
Loss before taxes	(444,984)	(87,469)
Statutory tax rate	25.63%	27.33%
Expected income tax recovery	(114,028)	(23,913)
Non-deductible items	6,585	146,088
Change in estimates	-	(91,340)
Change enacted tax rate	1,839	(48,628)
Impact of higher tax rate in foreign subsidiary	-	518
Others	-	350
Flow through shares	33,262	-
Share-based payments	-	(27,349)
Change in deferred tax assets not recognized	72,342	44,274
Total income taxes recovery	-	-

Deferred income taxes reflect the tax effects of temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes. The deferred tax assets have not been recognized because at this stage of the Company's development, it is not determinable that deferred taxable income will be available against which the Company can utilize such deferred income tax assets. Deferred tax assets at July 31, 2012, 2011 and 2010 are comprised of the following:

Canada:

	July 31, 2012	July 31, 2011	August 1, 2010
	$	$	$
Non capital loss carryforwards	1,077,702	1,007,037	889,551
Capital loss carryforwards	280,444	280,444	159,398
Equipment	8,496	6,621	5,599
Long term investment	-	-	121,046
Financing costs	210	3,580	116,966
Resource properties	99,805	97,284	25,000
	1,466,657	1,394,966	1,317,560
Deferred tax asset not recognized	(1,466,657)	(1,394,966)	(1,317,560)
Net deferred tax asset	-	-	-

16. Income Taxes – (continued)

Mexican Entity:

	July 31, 2012	July 31, 2011	August 1, 2010
	$	$	$
Non capital loss carryforwards	546,932	546,281	673,400
Equipment	5,439	5,439	-
	552,371	551,720	673,400
Deferred tax asset not recognized	(552,371)	(551,720)	(673,400)
Net deferred tax asset	-	-	-

As at July 31, 2012, the Company has non-capital losses of $6,264,134 which will expire as follows:

	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	-	2,693	2,693
2021	-	-	-
2022	-	2,326	2,326
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
2032	282,658	-	282,658
	4,310,804	1,953,330	6,264,134

In addition to non-capital losses listed above, there are resources related expenditures of $399,219 which can be used to offset future Canadian income indefinitely.

During the year ended July 31, 2011, the Company raised $130,200 through the issuance of flow-through shares. The Company renounced the tax benefits on these flow-through shares on December 31, 2011 (Note 12).

17. Conversion to IFRS

The Company adopted IFRS on August 1, 2011, with a transition date of August 1, 2010, representing the date of the Company's opening IFRS balance sheet. Prior to the adoption of IFRS, the Company prepared its financial statements in accordance with GAAP. The accounting policies set out in note 2 have been consistently applied in preparing the financial statements for the years ended July 31, 2012 and 2011 and in the preparation of the opening IFRS balance sheet as at August 1, 2010.

17. Conversion to IFRS – (continued)

The Company applied IFRS 1, First-time Adoption of IFRS, in preparing these first IFRS financial statements. In preparing the opening IFRS statement of financial position, the Company adjusted amounts previously reported in the financial statements prepared in accordance with GAAP. This note explains the principal adjustments made by the Company in restating its GAAP balance sheet as at August 1, 2010 and its previously published GAAP financial statements for the year ended July 31, 2011.

Elected exemptions from full retrospective application:

IFRS generally requires first-time adopters to retrospectively apply all IFRS standards and interpretations currently in effect. However, IFRS 1 provides certain exceptions and exemptions to this general principle. On adoption of IFRS 1, the Company elected to apply the following transition exemptions to full retrospective application of IFRS:

IFRS 2 - Share-based Payment

IFRS 1 provides an exemption that allows first-time adopters to not apply standards for share-based payments under IFRS for equity instruments that were granted prior to November 7, 2002 and to equity instruments that were granted after November 7, 2002 that have vested prior to transition to IFRS. The Company has elected to utilize this exemption and did not apply IFRS 2 to awards that vested prior to August 1, 2010, which have been accounted for in accordance with GAAP.

Mandatory exception to retrospective application:

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 statement of financial position 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.

Reconciliation between GAAP and IFRS:

IFRS 1 requires reconciliation disclosures that explain how the transition from GAAP to IFRS has affected the Company's previously reported financial statements prepared in accordance with previous GAAP for the year ended July 31, 2011. 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. Unrealized gains (losses) on available for sale marketable securities were recorded to accumulated other comprehensive income.

IFRS requires an entity to present for each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. Upon conversion, the contributed surplus account was renamed to the reserves account, and accumulated other comprehensive income relating to available for sale revaluation was transferred to the reserves account.

17. Conversion to IFRS – (continued)

Reconciliation between GAAP and IFRS: – (continued)

(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.

(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, 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 July 31, 2011 because 1,860,000 flow-through shares were not issued at a premium and no value was assigned to the sale of tax deductions (note 10(c)). The Company had no flow-through shares transaction at August 1, 2010.

(d) Forfeited or Expired Stock 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 at August 1, 2010, 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. 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 July 31, 2011.

17. Conversion to IFRS – (continued)

Reconciliation between GAAP and IFRS: – (continued)

(e) Exploration and Evaluation of Mineral Resources

Under GAAP, the Company capitalized the costs of acquiring interests in mineral rights and exploration and evaluation expenditures in respect of projects that are in the exploration or pre-development stage.

On transition to IFRS, the Company elected to change its accounting policy to expense exploration and evaluation expenditures, the costs of acquiring interests in mineral rights and administrative and land use costs incurred prior to commercial feasibility of mining operations being established. As a result of this change, capitalized exploration and evaluation assets decreased and net loss increased by $289,137 for the year ended July 31, 2011 as compared to amounts previously reported.

17. Conversion to IFRS – (continued)

IFRS Reconciliation of Statements of Financial Position

		As at August 1, 2010			As at July 31, 2011		
	Note	GAAP	Effect of Conversion to IFRS	**IFRS**	GAAP	Effect of Conversion to IFRS	**IFRS**
		$	$	**$**	$	$	**$**
Assets							
Current							
Cash and cash equivalents	18	306,273	-	**306,273**	415,037	-	**415,037**
Amounts receivable		3,180	-	**3,180**	13,318	-	**13,318**
Prepaid expenses		21,101	-	**21,101**	21,246	-	**21,246**
Investments		1,448,218	-	**1,448,218**	-	-	**-**
		1,778,772	-	**1,778,772**	449,601	-	**449,601**
Equipment		39,829	-	**39,829**	16,316	-	**16,316**
Exploration and evaluation assets		-	-	**-**	289,137	(289,137)	**-**
		39,829	-	**39,829**	305,453	(289,137)	**16,316**
		1,818,601	**-**	**1,818,601**	755,054	(289,137)	**465,917**
Liabilities and Shareholders' Equity							
Current							
Accounts payable and accrued liabilities	18	93,054	-	**93,054**	81,714	-	**81,714**
Loans payable		999,377	-	**999,377**	-	-	**-**
		1,092,431	-	**1,092,431**	81,714	-	**81,714**
Shareholders' equity							
Share capital	17(d)	11,617,441	91,740	**11,709,181**	11,979,085	91,740	**12,070,825**
Reserves	17(a)(b)(d)	-	1,893,836	**1,893,836**	-	945,575	**945,575**
Contributed surplus	17(a)(b)(d)	1,802,844	(1,802,844)	**-**	1,902,055	(1,902,055)	**-**
Accumulated other comprehensive income	17(a)	723,983	(723,983)	**-**	-	-	**-**
Deficit	17(b)(d)(e)	(13,418,098)	541,251	**(12,876,847)**	(13,207,800)	575,603	**(12,632,197)**
		726,170	-	**726,170**	673,340	(289,137)	**384,203**
		1,818,601	**-**	**1,818,601**	755,054	(289,137)	**465,917**

17. Conversion to IFRS – (continued)

IFRS Reconciliation of Statements of Loss and Comprehensive Loss

		Year ended July 31, 2011		
	Note	GAAP	Effect of Conversion to IFRS	**IFRS**
		$	$	**$**
Expenses				
Bank charges		1,152	-	**1,152**
Consulting fees		33,544	-	**33,544**
Depreciation		7,196	-	**7,196**
Exploration and evaluation expenditures	17(e)	-	289,137	**289,137**
Management fees		64,800	-	**64,800**
Office, rent and administration		36,474	-	**36,474**
Professional fees		24,389	-	**24,389**
Regulatory, transfer agent and shareholder information		41,353	-	**41,353**
Share-based payments	17(b)	100,056	8,630	**108,686**
Travel, advertising and promotion		111,941	-	**111,941**
Wages and benefits		89,267	-	**89,267**
		510,172	297,767	**807,939**
Loss before other items		(510,172)	(297,767)	**(807,939)**
Other items:				
Foreign exchange loss		(3,023)	-	**(3,023)**
Finance and other income		16,737	-	**16,737**
Impairment of equipment		(17,227)	-	**(17,227)**
Gain on sale of investments		723,983	-	**723,983**
		720,470	-	**720,470**
Net comprehensive earnings (loss) for the year		210,298	(297,767)	**(87,469)**
Earnings (loss) per share				
Basic		0.01	(0.01)	**-**
Diluted		0.01	(0.01)	**-**

17. Conversion to IFRS – (continued)

IFRS Reconciliation of Statements of Cash Flow

		Year ended July 31, 2011		
	Note	GAAP	Effect of Conversion to IFRS	**IFRS**
		$	$	**$**
Operating activities				
Net earnings (loss) for the year		210,298	(297,767)	**(87,469)**
Adjustments for non-cash items				
Depreciation		7,196	-	**7,196**
Share-based payments	17(b)	100,056	8,630	**108,686**
Shares issued for exploration and evaluation	17(e)	-	221,000	**221,000**
Impairment of equipment		17,227	-	**17,227**
Gain on sale of investments		(723,983)	-	**(723,983)**
		(389,206)	(68,137)	**(457,343)**
Changes in Non-Cash Working Capital Items				
Amounts receivable		(10,138)	-	**(10,138)**
Prepaid expenses		(145)	-	**(145)**
Accounts payable and accrued liabilities		(15,945)	-	**(15,945)**
		(415,434)	(68,137)	**(483,571)**
Investing activities				
Proceeds from disposal of investments		1,448,218	-	**1,448,218**
Purchase of equipment		(910)	-	**(910)**
Exploration and evaluation assets	17(e)	(68,137)	68,137	**-**
		1,379,171	68,137	**1,447,308**
Financing activities				
Due to related parties		(6,395)	-	**(6,395)**
Repayment of loans		(999,377)	-	**(999,377)**
Shares issued for cash		150,799	-	**150,799**
		(854,973)	-	**(854,973)**
Increase in cash and cash equivalents		108,764	-	**108,764**
Cash and cash equivalents, beginning of year	18	306,273	-	**306,273**
Cash and cash equivalents, end of year	18	415,037	-	**415,037**

18. Comparative Figures

Certain of the comparative figures have been reclassified to conform to the presentation adopted in the current year.

19. Subsequent Events

(a) Subsequent to year end on September 14, 2012, the Company entered into an unsecured loan agreement with an arm's length party (the "Lender") in the principal amount of $50,000. The loan bears an interest at 12% per annum and matures on March 15, 2013. In consideration for the loan, the Company issued 200,000 common shares at a deemed price of $0.05 per share to the Lender.

(b) Subsequent to July 31, 2012, the Company entered into a Letter of Intent ("LOI"), pursuant to which, it has been granted an option to acquire a 100% working interest in the Wildnest and Phantom Lake gold properties located in Manitoba (the "Properties"). Under the terms of the LOI, the Company is entitled to earn a 100% interest in the Properties by making cash payments of $32,500 and issuing 200,000 common shares of the Company over a period of three years, of which, $2,500 shall be paid and 50,000 shares shall be issued upon Exchange acceptance of the transaction. In addition, the Company is required to complete exploration programs totalling $850,000 over a four year period. The Properties are subject to a 2% net smelter royalty (NSR), of which, 50% of the NSR or 1% NSR may be acquired by the Company for $500,000.

The LOI is subject to acceptance for filing by the Exchange.