Condensed Consolidated Financial Statements of

GOLDREA RESOURCES CORP.

Interim periods ended January 31, 2012 and 2011

(All amounts are expressed in Canadian dollars unless otherwise specified)

(Unaudited – see Notice to Reader)

NOTICE TO READER

The accompanying unaudited condensed consolidated interim financial statements for Goldrea Resources Corp. have been prepared by management in accordance with International Financial Reporting Standards ("IFRS"). These statements are presented on the accrual basis of accounting. Accordingly, a precise determination of many assets and liabilities is dependent upon future events. Therefore, estimates and approximations have been made using careful judgment. Recognizing that the Company is responsible for both the integrity and objectivity of the financial statements, management is satisfied that these financial statements have been fairly presented.

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an independent auditor. We have compiled the condensed consolidated interim statement of financial position of Goldrea Resources Corp. as at January 31, 2012 and the condensed consolidated interim statement of loss and comprehensive loss, condensed consolidated interim statements of changes in equity, and condensed consolidated interim statements of cash flows for the three months then ended in accordance with International Financial Reporting Standards (IFRS) applicable to the preparation of interim financial statements, including IAS 34 and IFRS1.

These condensed consolidated interim financial statements have not been audited, reviewed or otherwise attempted to verify the accuracy or completeness by the Company's independent auditor.

GOLDREA RESOURCES CORP.

Condensed Consolidated Interim Statements of Financial Position

		January 31 2012		July 31, 2011 (Note 14)
Assets				
Current assets:				
Cash and cash equivalent (note 3)	$	25,612	$	121,125
Marketable securities (note 5)		88,528		180,608
Amounts receivable		70,989		44,766
Inventory (note 6)		1,434,731		838,160
Prepaid expenses and advances		2,772		11,022
		1,622,632		1,195,681
Due from related parties (note 7)		23,980		35,241
Reclamation deposits		53,815		53,739
Equipment (note 8)		788,808		820,507
Exploration and evaluation assets (note 9 and Schedule)		10,478,699		10,429,214
	$	12,967,934	$	12,534,382
Liabilities and Shareholder's Equity				
Current liabilities:				
Accounts payable and accrued liabilities	$	1,213,453	$	478,392
Other short-term liabilities		10,825		10,825
Due to related parties (note 7)		1,897,282		1,633,497
		3,121,560		2,122,714
Future income taxes (note 13(b))		1,164,861		1,164,861
Non-controlling interest (note 2(b) and 9(c)(i), (ii))		702,702		702,702
Shareholders' equity:				
Share capital (note 10)		28,319,338		28,319,338
Reserves (note 10(b))		1,865,868		1,856,664
Accumulated other comprehensive income (note 5 and 13)		44,399		130,178
Deficit		(22,250,794)		(21,762,075)
		7,978,811		8,544,105
Nature and continuance of operations (note 1)				
Commitments (note 9)				
		12,967,934		12,534,382

See accompanying notes to condensed consolidated interim financial statements.

Approved on behalf of the Board:

"Larry Reaugh"
Larry Reaugh, Director

"Edward Lee"
Edward Lee, Director

GOLDREA RESOURCES CORP.

Condensed Consolidated Interim Statements of Loss and Comprehensive Loss
Three and six months ended January 31, 2012 and 2011

	Three months ended January 31		Six months ended January 31	
	2012	2011	2012	2011
Expenses:				
Advertising and promotion	$ 10,163	$ 17,568	$ 20,326	38,415
Amortization	1,010	1,350	2,095	2,803
Consulting	32,867	51,090	84,539	98,738
Office and administration	66,402	120,616	128,520	209,421
Professional fees	40,865	53,898	64,186	35,774
Rent	4,026	4,912	7,960	8,596
Shareholder communication	1,615	11,107	4,983	18,186
Share-based payment	-	47,118	9,204	112,043
Travel and accommodation	859	4,876	1,065	4,266
Transfer agent and filing fees	3,805	8,564	4,629	749
	161,612	321,099	327,507	528,991
Loss before other items	(161,612)	(321,099)	(327,507)	(528,991)
Other items:				
Interest income	76	49	237	265
Gain on debt settlement	-	-	-	-
Other income	14,532	-	14,532	5,000
Foreign exchange gain (loss)	(49,019)	8,757	(175,981)	4,422
Write-down of exploration and evaluation assets (note 9(a)(iv), and (c)(i))	-	-	-	(33,611)
	(34,411)	8,806	(161,212)	(23,924)
Loss before income taxes	(196,023)	(312,293)	(488,719)	(552,915)
Recovery of future income taxes (note 13)	-	-	-	-
Loss for the period	(196,023)	(312,293)	(488,719)	(552,915)
Deficit, beginning of year	(22,054,771)	(20,477,976)	(21,762,075)	(20,237,354)
Deficit, end of the period	(22,250,794)	(20,790,269)	(22,250,794)	(20,790,269)
Loss per share - basic and diluted	(0.00)	(0.01)	(0.01)	(0.01)
Weighted average number of shares outstanding	70,279,252	68,362,861	70,279,252	63,976,034

Consolidated Statement of Comprehensive Loss
Three and six months ended January 31, 2012 and 2011

	Three months ended January 31		Six months ended January 31	
	2012	2011	2012	2011
Loss of the period	(196,023)	(312,293)	(488,719)	(552,915)
Other comprehensive income (loss):				
Unrealized gain/loss on available-for-sale marketable securities (note5)	44,399	101,311	44,399	101,311
Comprehensive loss for the period	(151,624)	(210,982)	(444,320)	(451,604)

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GOLDREA RESOURCES CORP.

Condensed Consolidated Interim Statements of Changes In Equity
Three and six months ended January 31, 2012 and 2011

	Share capital		Reserves				
	Number of shares	Amount	Stock Options	Warrants	Accumulated comprehensive income	Deficit	Total
	#	$	$	$	$	$	$
Balance August 1, 2010	59,510,354	27,548,006	1,710,631	-	35,527	(20,237,354)	9,056,810
Comprehensive loss for the period					65,784	(552,915)	(487,131)
Private placement	1,450,898	217,635		-			217,635
Private placement	7,918,000	475,080					475,080
Share issuance costs		(27,826)					(27,826)
Share-based payment			112,043				112,043
Balance, January 31, 2011	68,879,252	28,212,895	1,822,674	-	101,311	(20,790,269)	9,346,611
Comprehensive loss for the period					28,867	(971,806)	(942,939)
Share issued for properties	400,000	22,000	-	-			22,000
Private placement	1,000,000	100,000					100,000
Share issuance costs		(15,557)		5,557			(10,000)
Share-based payment			28,433				28,433
Balance, July 31, 2011	70,279,252	28,319,338	1,851,107	5,557	130,178	(21,762,075)	8,544,105
Comprehensive loss for the period					(85,780)	(488,719)	(574,499)
Share-based payment			9,204				9,204
Balance, January 31, 2012	70,279,252	28,319,338	1,860,311	5,557	44,399	(22,250,794)	7,978,811

GOLDREA RESOURCES CORP.

Condensed Consolidated Interim Statements of Cash Flows

Three and six months ended January 31, 2012 and 2011

	Three months ended January 31		Six months ended January 31	
	2012	2011	2012	2011
Cash provided by (used in):				
Operating activities:				
Loss for the period	$ (196,023)	$ (312,293)	$ (488,719)	$ (552,915)
Items not involving cash:				
Amortization	1,010	1,350	2,095	2,803
Share-based payment	-	47,118	9,204	112,043
Unrealized foreign exchange gain/loss	49,019	(8,757)	175,981	(4,422)
Write-down of exploration and evaluation assets (note 9(a)(iv), and (c)(i))	-	-	-	33,612
	(145,994)	(272,582)	(301,439)	(408,879)
Changes in non-cash working capital:				
Amounts receivable	(11,640)	(24,555)	(26,223)	(26,813)
Inventory	(256,985)	(152,123)	(596,571)	(256,046)
Due to related parties	(230,416)	-	263,785	
Prepaid expenses and advances	-	(19,936)	8,250	(13,090)
Accounts payable and accrued liabilities	667,355	117,390	735,061	9,532
Repayment of amounts to related parties		(54,186)		85,281
	22,320	(405,992)	82,863	(610,015)
Financing activities:				
Shares issued for cash and properties	-	475,080	-	692,715
Share issue costs	-	(27,826)	-	(27,826)
	-	447,254	-	664,889
Investing activities:				
Exploration and evaluation assets	(13,304)	(12,032)	(49,485)	(46,718)
Effect on foreign currency translation	(27,854)	-	(128,316)	-
Reclamation bond	-	-	(76)	(64)
Purchase of Equipment	-	-	(499)	-
	(41,158)	(12,032)	(178,376)	(46,782)
Decrease in cash and cash equivalents	(18,838)	29,230	(95,513)	8,092
Cash and cash equivalents, beginning of period	44,450	183,372	121,125	204,510
Cash and cash equivalents, end of period	$ 25,612	$ 212,602	$ 25,612	$ 212,602
Supplementary information:				
Interest income received	$ 76	$ 49	$ 237	$ 265
Non-cash investing and financing activities:				
Exploration and evaluation assets acquisition by issuance of common shares	-	-	-	-
Amortization recorded in mineral properties	7,170	7,153	14,474	14,429
Subscriptions for common shares issued				

1. Nature and continuance of operations:

Goldrea Resources Corp. (the Company) was incorporated under the British Columbia Business Corporations Act on March 2, 1981. The Company is involved in the acquisition, exploration and development of mineral properties located in North America and China and is currently in the exploratory and development stages of its mineral properties. The underlying value of these mineral properties and their related deferred costs is dependent upon confirmation of the Company's interest in the underlying claims and the existence of economically recoverable mineral reserves. The Company's common shares are traded on the TSX Venture Exchange under the symbol "GOR".

These financial statements have been prepared assuming the Company will continue on a going concern basis. The Company has incurred losses since inception. As at January 31, 2012, the Company has a deficiency in working capital of $1,498,928. The Company currently has a payable of $1,897,282 to a related company and these financial statements are prepared on the basis that the related company will not demand repayment prior to Goldrea obtaining sufficient cash to repay this debt. In June 2011, the Company decided not to maintain its interests in Rushan Ludi Goldrea Gold Mining Inc. (LGG) due to insufficient funds available to make the required capital contributions. The termination of LGG resulted in a write-down of $1,557,143 of mineral property costs, which include non-controlling interest of $686,903, a future income tax recovery of $242,812 and a charge to the statement of operations of $865,076. According to the joint venture agreement, the Company was released from its further capital contribution obligation to LGG.

The Company has prepared a budget for its cash flows for the next twelve months. The budget is based on management's best estimates of operating conditions in the context of current economic conditions and today's capital market climate. The Company expects that it has to raise additional financing to be able to meet its obligations for the next twelve months. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

The ability of the Company to continue as a going concern depends upon its ability to develop profitable operations and to raise adequate financing to pursue its business objectives. There can be no assurance that the Company will be able to continue to raise funds, in which case, the Company may be unable to meet its obligations. Accordingly, they 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, contingent obligations and commitments in other than the normal course of business and at amounts different from those in these financial statements.

2. Significant accounting policies:

The financial statements were authorized for issue on March 30, 2012 by the Directors of the Company. The accounting policies set out below have been applied consistently to all periods presented in these condensed consolidated financial statements.

(a) Statement of compliance and adoption of International Financial Reporting Standards ("IFRS"):

These condensed consolidated interim 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 consolidated interim 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

2. Significant accounting policies (continued):

(a) Statement of compliance and adoption of International Financial Reporting Standards ("IFRS") (continued):

condensed consolidated interim financial statements are 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 interim condensed consolidated statements of financial position and condensed consolidated statements of loss and comprehensive loss for comparative periods prepared in accordance with GAAP and as previously reported to those prepared and reported in these unaudited condensed consolidated interim financial statements in accordance with IFRS.

(b) Basis of presentation and consolidation:

The condensed consolidated interim financial statements are presented in Canadian dollars unless otherwise noted. The condensed consolidated interim financial statements include the accounts of the Company, its wholly-owned subsidiaries, Goldrea USA Inc. and its 90% owned subsidiary, Rushan Goldrea Gold Inc. (RGG), incorporated in the People's Republic of China (note 9(c)(*i*)).

All inter-company balances and transactions have been eliminated upon consolidation.

These Interim Financial Statements have been prepared on the historical cost basis except for certain non-current assets and financial instruments, which are measured at fair value, as explained in the accounting policies (note 2(*f*)). In addition, these Interim Financial Statements have been prepared using the accrual basis of accounting, except for cash flow information. The comparative figures presented in these Interim Financial Statements are in accordance with IFRS and have not been audited.

The preparation of these Interim Financial Statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Pre-changeover GAAP. The accounting policies set out below have been applied consistently to all periods presented in these Interim Financial Statements. They also have been applied in preparing an opening IFRS consolidated statement of financial position at August 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards ("IFRS 1"). The impact of the transition from Pre-changeover GAAP to IFRS is explained in Note 4.

(c) Use of estimates and judgments:

The preparation of the Company's condensed 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 condensed 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, the value of the premium included in flow-through share issuances and the estimated useful life and recoverability of equipment. Actual results may differ from those estimates and judgments.

2. Significant accounting policies (continued):

(d) Functional and presentation of foreign currency:

The presentation currency and functional currency of the Company and its subsidiaries is the Canadian dollar.

(e) Foreign currency translation:

Transactions in foreign currencies are translated to the functional currency at exchange rates at the dates of the 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 or loss.

(f) Financial instruments:

The Company classifies its financial instruments in the following categories: at fair value through profit or loss (“FVTPL”), 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 15 to these condensed consolidated interim financial statements.

A financial asset is classified at fair value through profit or loss if it is classified as held for trading in the near future or is 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.

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 initially and 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.

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.

2. Significant accounting policies (continued):

(f) Financial instruments (continued):

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.

(g) Cash and cash equivalents:

Cash and cash equivalents consist of highly liquid investments that are readily convertible to known amounts of cash and have maturity dates of three months or less from the date of purchase.

(h) Marketable securities:

Marketable securities include publicly traded common shares received as proceeds of mineral property option transactions and “share-for-debt” settlements of prior related party intercompany balances.

Marketable securities have been classified as available-for-sale and are carried at fair value based on quoted market prices.

(i) Inventory:

Supplies inventory includes the cost of consumables used in mine development. It is valued at the lower of cost and net realizable value, with replacement costs being the typical measure of net realizable value.

Stockpiled ore is coarse ore that has been extracted from the RGG mine and is available for further processing. Stockpiled ore is valued at the lower of average production cost and net realizable value.

(j) Equipment:

Equipment is carried at acquisition cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any cost directly attributable to bringing the asset to the location and condition necessary for its intended use and initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is calculated using the following annual rates, which are used to estimate the useful lives of the assets:

Furniture and fixtures	20% declining balance
Computer hardware	30% declining balance
Vehicles	straight line (5 years with 10% scrap value)

Equipment used in exploration and evaluation activities, where substantially all the economic life or value of the asset is expected to be derived from a specific project, are accounted for as dedicated assets and included as a separate category within the costs allocated to the related exploration stage exploration and evaluation assets. Amortization for dedicated assets is recorded as exploration and evaluation expenditure of the related project.

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

Where an item of equipment is composed of major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

2. Significant accounting policies (continued):

(j) Equipment (continued):

Equipment in the subsidiaries in China are amortized on the straight-line basis with 10% scrap value, and translated into Canadian dollars using historical exchange rates when assets were acquired. When completed, assets under construction are transferred into their respective capital asset classes and amortized.

(k) 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.

Exploration and evaluation assets are assessed for impairment if (i) sufficient data exist to determine technical feasibility and commercial viability, and (ii) facts and circumstances suggest that the carrying amount exceeds the recoverable amount.

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.

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.

(l) 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 loss and comprehensive loss.

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 pretax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

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

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

2. Significant accounting policies (continued):

(m) Decommissioning obligations:

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 January 31, 2012, July 31, 2011 and August 1, 2010, the Company has determined that it does not have material decommissioning obligations.

(n) 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.

The company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate exploration and evaluation assets. These equity financing transactions may involve issuance of common shares or units. Each unit comprises a certain number of common shares and a certain number of warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the transaction. Warrants that are part of units are assigned nil value and included in capital stock with the common shares that were concurrently issued. Warrants that are issued as payment for agency fee or other transaction costs are accounted for as share-based payments.

(o) Revenue recognition:

Sales are recognized when the rights and obligations of ownership pass to the customer and the price is reasonably determinable.

(p) Share-based payments:

The Company has 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 in equity as 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 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.

(q) 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

2. Significant accounting policies (continued):

(q) Flow-through shares (continued):

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.

(r) Income taxes:

Income taxes are recorded using the balance sheet method whereby deferred tax assets and liabilities are recognized for the future tax consequences attributable to temporary differences between the balance sheet carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using enacted or substantively enacted tax rates expected to apply when the asset is realized or the liability settled. The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that enactment or substantive enactment occurs. A deferred tax asset is recognized only if it is probable that a deferred tax asset will be recovered. The Company does not recognize deferred tax asset or liability arising on initial recognition where the transaction is not a business combination and at the time of transaction, there is no impact on accounting profit or taxable profit.

(s) 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 losses for the period ended January 31, 2012 and 2011, basic loss per share is equal to dilutive loss per share for the periods presented.

(t) Measurement uncertainty:

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenses during the reporting period. Significant areas requiring the use of management estimates relate to the current fair value of marketable securities, the continuing viability of mineral property interests, valuation of inventory and the determination of reclamation obligations and valuation allowance for future income tax assets. Actual results could differ from these estimates.

3. Foreign currency:

The Company's cash consists of CAD$12,518 held in bank accounts in Canada, US$5,318 (CAD$5,346 equivalent) held in Goldrea USA Inc. and Rmb 48,638 (CAD$7,748 equivalent) held in China.

The Chinese Renminbi (Rmb) is not a freely convertible currency. Future exchange rates of Renminbi could vary significantly from the current or historical exchange rates as a result of controls that could be imposed by the People's Republic of China (PRC) government. The exchange rates of Renminbi are affected by changes in PRC government policies. The exchange rates of Renminbi are also affected by economic developments and political changes domestically and internationally, and supply and demand for the Renminbi. The Company does not expect these restrictions to affect the free flow of cash in the normal course of business, however, there are restrictions on the removal of capital from the country. The quotation of exchange rates does not imply convertibility of Rmb into Canadian dollars or other currencies.

4. Recent accounting pronouncements:

The following IFRS standards have been recently issued by the International Accounting Standards Board ("IASB"): 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) 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.

(b) IFRS 10, Consolidated Financial Statements

IFRS 10 Consolidated 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 April 1, 2013 and is currently evaluating the impact on its consolidated financial statements.

(c) 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.

5. Marketable securities:

The following tables show the fair value impact of marketable securities, classified as available for sale investment, on the Company:

January 31, 2012		Fair value		Cost		Accumulated unrealized gains (losses)
Molycor Gold Corp.						
50,000 common shares	$	1,750	$	5,000	$	(3,250)
La Ronge Gold Corp.[1]						
3,333 common shares		1,000		-		1,000
American Manganese Inc.						
204,234 common shares		85,778		20,424		65,354
Tax effect of accumulated unrealized gains						(18,706)
	$	88,528	$	25,424	$	44,398

[1] Chalice Diamond changed name into La Ronge Gold ("LAR") and its shares converted 1:1 on July 7, 2011.

January 31, 2011		Fair value		Cost		Accumulated unrealized gains (losses)
Molycor Gold Corp.						
50,000 common shares	$	3,500	$	5,000	$	(1,500)
Chalice Diamond Corp.						
3,333 common shares		367		-		367
American Manganese Inc.						
405,734 common shares		148,093		40,573		107,520
Tax effect of accumulated unrealized gains						(5,075)
	$	151,960	$	45,573	$	101,311

5. Marketable securities (continued):

Accumulated other comprehensive income continuity is as follows:

Accumulated other comprehensive income at July 31, 2009	21,120
Unrealized gains on available-for-sale marketable securities	19,482
Tax effect of accumulated unrealized gains	(5,075)
Accumulated other comprehensive income at July 31, 2010	35,527
Unrealized gains on available-for-sale marketable securities	108,282
Tax effect of accumulated unrealized gains	(13,631)
Accumulated other comprehensive income at July 31, 2011	130,178
Unrealized gains on available-for-sale marketable securities	(85,780)
Accumulated other comprehensive income at January 31, 2012	44,398

6. Inventory:

	2012 Q2	2011 Q2
Stockpiled ore	$ 1,434,731	$ 504,803

Stockpiled ore is valued at lower of costs of mining and net realizable value. As at January 31, 2012, the Company has an inventory of $1,434,731 representing the costs of mining of 46,809 tonnes of stockpiled ore. No inventory write-down is recorded based on gold price at $1,590 per ounce.

7. Related party transactions:

Amounts due to and from officers, directors and companies with common directors are interest free, unsecured and have no specified terms of repayment. They have arisen from the provision of services and expense reimbursements or advances.

The Company has directors and officers in common with Molycor Gold Corporation (Molycor), and American Manganese Inc. (formerly Rocher Deboule Minerals Corp.,) (American Manganese). The Company and Molycor are 50/50 joint venture participants in various properties in British Columbia.

Related party balances are as follows:

	2012 Q2	2011 Q2
Due from Molycor Gold Corporation	$ (3,039)	$ 31,746
Due from (to) American Manganese Inc.	(80,568)	48,990
Due from directors and officers of the Company	23,980	8,682
	$ (59,627)	$ 89,418

7. Related party transactions (continued):

During the quarter ended January 31, 2012:

- consulting fees of $20,700 (2011 - $30,000) were payable to a company owned by a director and $12,167 (2011 - $19,802) was paid to a director;
- administrative fees of $22,800 (2011 - $72,000) were paid to executive directors and officers of the Company;
- office building use and technical support service fees of Rmb 36,000 (CAD$5,795) (2011 - Rmb 36,000 (CAD$5,453)) and ore mining fees of Rmb 1,593,712 (CAD$256,535) (2011 - Rmb 1,004,331 (CAD$144,567)) were accrued payable to Daye Gold Mine, a 10% owner of RGG.

The above transactions were in the normal course of business and were measured at the exchange amount which is the amount agreed to by the related parties.

8. Equipment and plant:

	Office equipment	Furniture and fixtures	Computer equipment	Vehicle	Machinery	Corehouse	Contruction in Progress [a]	Total
	$	$	$	$	$	$	$	$
Costs:								
Balance, August 1, 2010	31,278	26,039	56,912	114,852	255,324	14,544	613,908	1,112,857
Additions	-	-	-	-	-	-	-	-
Disposals	-	-	-	-	-	-	-	-
Balance, July 31, 2011	31,278	26,039	56,912	114,852	255,324	14,544	613,908	1,112,857
Additions	-	-	499	-	-	-	-	499
Balance, January 31, 2012	31,278	26,039	57,411	114,852	255,324	14,544	613,908	1,113,356
Depreciation:								
Balance, August 1, 2010	20,147	17,995	42,296	61,643	80,025	2,155	-	224,261
Charge for the period	2,982	1,994	5,257	23,920	33,244	693	-	68,090
Balance, July 31, 2011	23,129	19,989	47,553	85,563	113,269	2,848	-	292,351
Charge for the period	1,177	841	1,791	11,961	16,084	343	-	32,197
Balance, January 31, 2012	24,306	20,830	49,344	97,524	129,353	3,191	-	324,548
Carrying amounts:								
August 1, 2010	11,131	8,044	14,616	53,209	175,299	12,389	613,908	888,596
July 31, 2011	8,149	6,050	9,359	29,289	142,055	11,696	613,908	820,506
January 31, 2012	6,972	5,209	8,067	17,328	125,971	11,353	613,908	788,808

[a] Construction in progress includes campsite housing, offices, and surface equipment storage buildings. This asset balance will be amortized over the estimated useful life of the mine following the commencement of production or written off if RGG is sold, allowed to lapse or abandoned.

9. Exploration and evaluation assets:

(a) British Columbia, Canada:

(*i*) Eskay Creek/ BX Property, Liard Mining Division:

During the year ended July 31, 2002, the Company acquired by staking a 100% interest, subject to 2% Net Smelter Return Royalty (NSR), in various gold claims located approximately 48 kilometres southwest of Bob Quinn Lake, British Columbia. In 2003, an unrelated company earned a 10% interest in the property. The Company abandoned the property in December 2010, and wrote off the property in 2011 Q1.

(*ii*) Crowrea Property, Osoyoos and Similkameen Mining Division:

The Company holds a 50% interest in various mineral claims, some of which are partially owned by Molycor Gold Corporation. The property is a molybdenum prospect and is located near Summerland, B.C.

(*iii*) Flap, Nicola Mining Division:

The Company acquired by staking an undivided 50% joint venture interest in certain mineral claims. The property is located at Tadpole Lake, approximately 45 km west of Kelowna, B.C.

(*iv*) Empress Property, Osoyoos and Similkameen Mining Division:

The Company acquired by staking a 50% interest in the Empress Mineral claim, which is partially owned by Molycor Gold Corporation. It is a molybdenum prospect in the middle of the Crowrea Property near Summerland, B.C.

(*v*) Wigwam Property, Vancouver Mining Division

The Company acquired 100% interests in Wigwam property in June, 2011, subject to 2% NSR, for a price of $20,000 in cash and issuance of 400,000 common shares to the vendor. The property is located at Wigwam Bay, eight kilometres southwest of the head of Seymour Inlet, British Columbia.

(b) Arizona, U.S.A.:

(i). Gold Chain Property:

During the year ended July 31, 2003, the Company entered into an agreement to purchase the Gold Chain group claims located in Mohave County, Arizona. Under the terms of the agreement the Company purchased a 100% interest, subject to 3% NSR, of which, the Company has a option to purchase from the vendor two points of the NSR for the sum of US$2,000,000, in the property for US$5,000 and issuance of 100,000 common shares at a price of $0.31 per share to two individuals.

On December 9, 2010, the Company announced an option agreement whereby Sandfield Resources Ltd (Sandfield) can earn a 60% interest in the Gold Chain and Gold Rush Properties by paying $60,000 in cash, issue 300,000 shares, and incur $500,000 in exploration expenditures. As at January 31, 2012, Sandfield has not fulfilled all the requirements to earn a 60% interest.

9. Exploration and evaluation assets (continued):

(b) Arizona, U.S.A (continued):

(ii). Gold Rush Property:

During the year ended July 31, 2007, the Company entered into an agreement to purchase a 100% undivided interest in eighteen unpatented Lode Mining claims located in Mohave County, Arizona. Under the terms of the agreement the Company purchased the 100% interest, subject to 3% NSR, of which, the Company has a 10-year option to purchase from the vendor two points of the NSR for the sum of US$2,000,000, in the property for US$8,000 in cash and issuance of 100,000 common shares.

On December 9, 2010, the Company announced an option agreement whereby Sandfield Resources Ltd (Sandfield) can earn a 60% interest in the Gold Chain and Gold Rush Properties by paying $60,000 in cash, issue 300,000 shares, and incur $500,000 in exploration expenditures. As at January 31, 2012, Sandfield has not fulfilled all the requirements to earn a 60% interest.

(c) People's Republic of China:

(*i*) Rushan Goldrea Gold Property:

As described in note 2(a), the Company entered into a Co-operative Joint Venture Agreement where it has acquired a 74% interest in Rushan Goldrea Gold Inc. (RGG), a sino-foreign Chinese company by contributing capital of $2,000,000 (paid). The joint venture partner contributed mineral rights valued at $702,702 to earn a 26% interest. Future exploration costs above the $2,000,000 will be paid based on the percentage ownership in the Joint Venture. At January 31, 2012, the Company had contributed a total of Rmb 33,000,000 (CAD$5,012,700) while the Chinese partner chose not to match its portion of further contributions. As a result, the Company holds a 90% interest in RGG and the Chinese partner's interest decreased to 10% being its original mineral rights contribution.

RGG holds exploration licenses covering 53 square kilometres surrounding the open-pit Shandong Daye Gold Mine in Shandong Province, China. Based on geological results and geologist recommendation and to save on annual maintenance expenses, the Company abandoned five mineral claims by transferring the titles back to Shandong Daye Gold Mine without consideration and wrote off the related mineral exploration costs of Rmb 200,288(CAD$28,497) during the year ended July 31, 2009.

The Company acquired the right to enter into the joint venture agreement from MCS Pioneer Holdings Ltd. for the issuance of 5,000,000 shares and a 5% finder's fee to Essop Holdings Ltd. of 250,000 shares, which were fully issued within three years of receiving regulatory approval.

9. Exploration and evaluation assets (continued):

(c) People's Republic of China (continued):

(*ii*) Rushan Ludi Goldrea Gold Property:

As described in note 2(a), the Company entered into a Co-operative Joint Venture Contract on July 24, 2006 to acquire a 64% interest in Rushan Ludi Goldrea Gold Mining Inc. (LGG), a sino-foreign Chinese company. The Company is required to contribute Rmb 12,000,000 (as at January 31, 2011, CAD$1,820,400; (2011 - CAD$1,820,400)) in staged payments over three years, and pay Rmb 2,000,000 (as at January 31, 2011, CAD$303,400; (2011 - CAD$303,400)) to the joint venture partner once the exploration licenses have been transferred to the joint venture company.

The contract received regulatory approval August 21, 2008 and the payment structure is as follows:

- Rmb 2,200,000 (CAD$373,000) within 90 days of issuance of LGG's business license (paid);
- Rmb 2,000,000 (CAD$303,400) within one month of the approval and the transfer of Exploration license to from Chinese partner to LGG (outstanding);
- Rmb 9,800,000 by December 31, 2009. (Rmb 4,574,456 / CAD$848,160 was paid by December 31, 2009 and Rmb 5,225,544 / CAD$792,715 was outstanding at December 31, 2009).

In June 2011, the Company decided not to maintain its interest in LGG, resulting in a write down of mineral property costs of $1,557,413 including adjustments to non-controlling interest and future income tax liabilities of $686,903 and $242,812 respectively, and a charge to the statement of operations and deficit of $865,076.

10. Share capital and reserves:

(a) Authorized:

Authorized share capital comprises an unlimited number of common shares without par value.

(b) Issued:

As at January 31, 2012, there were 70,279,252 issued and fully paid common shares.
(July 31, 2011 – 70,279,252)

	Note	Price	Number of common shares		Share capital		Reserves
Balance, July 31, 2010			59,510,354		27,548,006		1,710,631
Fair value of vested stock options	14a		-		-		112,043
Share issued		$0.15	1,450,898		217,635		-
Share issued		$0.06	7,918,000		475,080		-
Share issuance cost			-		(27,826)		
Balance, January 31, 2011			68,879,252		28,212,895		1,822,674
Fair value of vested stock options	14a		-		-		28,433
Share issued		$0.10	1,000,000		100,000		-
Share issued		$0.06	400,000		22,000		-
Fair value of finder's fee warrants	14a		-		-		5,557
Share issuance cost					(15,557)		
Balance, July 31, 2011			68,879,252		28,212,895		1,856,664
Fair value of vested stock options	14a		-		-		9,204
Balance, January 31, 2012			68,879,252	$	28,212,895	$	1,865,868

10. Share capital and reserves (continued):

(c) Stock options:

Exercise price	Expiry date	October 31, 2011	Issued	Exercised	Forfeited	Expired	January 31, 2012
$		#	#	#	#	#	#
0.14	February 24, 2015	6,030,000	-	-	-	-	6,030,000
0.50	January 12, 2012	1,410,000	-	-	-	(1,410,000)	-
		7,440,000	-	-	-	(1,410,000)	6,030,000

Exercise price	Expiry date	October 31, 2010	Issued	Exercised	Forfeited	Expired	January 31, 2011
$		#	#	#	#	#	#
0.14	February 24, 2015	6,030,000	-	-	-	-	6,030,000
0.50	January 12, 2012	1,410,000	-	-	-	-	1,410,000
0.65	March 1, 2011	1,020,000	-	-	-	-	1,020,000
		8,460,000	-	-	-	-	8,460,000

The following table summarizes information about stock options outstanding at January 31, 2012:

Number of shares	Exercise price	Number exercisable	Weighted average remaining contractual life (years)	Expiry date
6,030,000	$0.14	6,030,000	3.07	February 24, 2015
6,030,000		6,030,000	3.07	

(d) Share purchase warrants:

Exercise price	Expiry date	October 31, 2011	Issued	Exercised	Forfeited	Expired	January 31, 2012
$		#	#	#	#	#	
0.10	November 5, 2012	7,918,000	-	-	-	-	7,918,000
0.10	November 5, 2012	128,000	-	-	-	-	128,000
0.16	March 25, 2013	1,000,000					1,000,000
		9,046,000	-	-	-	-	9,046,000

Exercise price	Expiry date	October 31, 2010		Issued	Exercised	00-Jan-00	Expired	January 31, 2011
$		#		#	#	#	#	
0.10	November 5, 2012	-		7,918,000	-	-	-	7,918,000
		-	#	7,918,000	-	-	-	7,918,000

10. Share capital and reserves (continued):

(d) Share purchase warrants (continued):

Number of shares	Exercise price	Weighted average remaining contractual life (years)	Expiry date
7,918,000	$0.10	0.76	November 5, 2012
128,000	$0.10	0.76	November 5, 2012
1,000,000	$0.16	1.15	March 25, 2013
9,046,000		0.80	

(e) Financings:

(i) On October 29, 2010 the Company obtained TSX approval for the issuance of 1,450,898 common shares to China Finance for total proceeds of $217,635. The Company also recovered from China Finance $41,765 of expenses incurred in relation to the intended $5.6 million private placement after China Finance withdrew.

(ii) There was a private placement that raised gross proceeds of $475,080 in the quarter ended January 31, 2011 but no financing activity in the quarter ended January 31, 2012.

(f) Shares issued for exploration and evaluation assets:

There was no share issued for exploration and evaluation assets in the quarters ended January 31, 2012 and 2011.

11. Share-based payment:

The Company has a stock option plan that provides for the issuance of options to its directors, officers, employees and consultants. The options have a maximum term of five years, and vest 25% on the date of grant and 25% every six months thereafter.

The Company has not granted any options during the period ended January 31, 2012 (2011 – nil). The fair value of each stock option granted to employees is estimated on the date of grant and the fair value of unvested stock options granted to consultants is re-evaluated and adjusted on the reporting date using the Black-Scholes option-pricing model with weighted average assumptions as follows:

	2012	2011
Risk free interest rate	1.4%	1.7-2.4%
Expected life (years)	3.5	4.0
Expected volatility	95.8%	93.8-95.8%
Expected dividends	0%	0%
Forfeiture rate	0%	0%
Weighted average fair value per option grant	$0.0219	$0.0219-$0.0694

11. Share-based payment (continued):

Compensation costs attributable to share options granted to employees and directors are measured at fair value at the grant date while consultants are measured at fair value at the reporting date and expensed with a corresponding increase to stock option reserves over the vesting period. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in stock option reserves is recorded as an increase to share capital. During the three month period ended October 31, 2011, the Company recorded $9,204 (2011 - $64,926) in share-based payment for options that were granted during fiscal 2010 and vested during the current period.

12. Segmented information:

The Company's mineral properties are located in three geographic regions, Canada, USA and China, and its corporate assets are located in Canada. A summary of total assets and net loss by geographic region is as follows:

		2012 Q2		2011 Q2
Net loss(gain) for the quarter				
Canada	$	136,803	$	312,400
China		54,313		(5,680)
USA		4,907		5,573
		196,023		312,293
Mineral properties				
Canada	$	536,322	$	476,900
China		9,642,394		11,061,397
USA		299,983		337,821
		10,478,699		11,876,118
Assets				
Canada	$	807,308	$	1,554,671
China		11,855,297		11,914,276
USA		305,329		347,743
		12,967,934		13,816,690

13. Income taxes:

(a) Income taxes:

The Company is subject to income taxes in Canada and the Peoples Republic of China. The consolidated provision for income taxes varies from the amount that would be computed from applying the combined federal, provincial and Chinese income tax rates to the net loss before income taxes as follows:

	2011	2010
Combined statutory tax rate	27.33%	29.13%
Computed tax recovery	$ (486,851)	$ (677,733)
Share issuance costs	(11,858)	-
Unrecognized items for tax purposes and other	29,826	451,390
Benefit of income tax losses not recognized	468,883	226,343
Recovery on marketable securities gain	(13,631)	(5,075)
Tax recovery on impairment of mineral property	(242,812)	
Recovery of income taxes	$ (256,443)	$ (5,075)

The significant components of the Company's future income tax assets and liabilities are as follows:

	2011	2010
Equipment	$ 68,537	$ 50,974
Exploration and development	628,843	633,380
Non-capital losses carried forward	2,152,656	1,926,844
Other temporary difference:		
Future income tax recovery	91,196	170,697
	2,941,232	2,781,895
Valuation allowance	(2,941,232)	(2,781,895)
Net future income tax assets	-	-
Future income tax liabilities:		
Mineral properties	(1,164,861)	(1,402,036)
Net future income tax liabilities	$ (1,164,861)	$ (1,402,036)

These losses expire as follows:

	Canada	China	Total
2012	$ -	$ 91,000	$ 91,000
2014	462,462		462,462
2015	515,601		515,601
2026	1,056,189		1,056,189
2027	1,751,523		1,751,523
2028	684,945		684,945
2029	1,377,161		1,377,161
2030	1,534,629		1,534,629
2031	1,044,384		1,044,384
	$ 8,426,894	$ 91,000	$ 8,517,894

13. Income taxes (continued):

(a) Income taxes (continued):

Canadian and foreign exploration resource deductions may be used against certain taxable income without expiry provided there has been no change in control of the Company. As at July 31, 2010, the available resource deductions amounted to approximately $2,547,543 in Canada and approximately $6,060,797_in the Peoples Republic of China, which can be carried forward and applied against future taxable income.

(b) Future income taxes:

The Company has incurred certain exploration costs related to the property held by Rushan Goldrea Gold Inc. and for which no tax basis is available. The acquisition of the mineral rights and interest in the RGG property in 2005 and certain exploration expenditures have not been recognized for tax purposes as certain recognition criteria were not met. As a result, the Company has recognized a future income tax liability of $1,164,861 as at July 31, 2011 (2010 - $1,402,036).

14. Conversion to IFRS:

The Company adopted IFRS on August 1, 2011, with the conversion date of August 1, 2010 representing the date of the Company's opening IFRS financial position balances. 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 are consistent with its previous estimates under GAAP for the same date.

In preparing its IFRS interim 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 can elect to recognize an expense related to share-based payments on the graded vesting method through the date of full vesting and 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 or use the actual forfeiture rate.

14. Conversion to IFRS (continued):

(b) Share-based payments (continued):

The Company has already applied graded vesting method to account for share-based payment and the actual forfeiture rates were zero for the periods covered; therefore, upon conversion to IFRS, there is no adjustment to the share-based payment.

(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 Company has not issued flow-through shares since August 1, 2010, and therefore, there is no impact on the conversion.

GOLDREA RESOURCES CORP.

Notes to Condensed Consolidated Financial Statements

Three and six months ended January 31, 2012 and 2011

14. Conversion to IFRS (continued):

IFRS Reconcilication of Consolidated Statements of Financial Position:

		As at August 1, 2010			As at January 31, 2011			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 assets:										
Cash and cash equivalents		204,510	-	**204,510**	212,602	-	**212,602**	121,125	-	**121,125**
Marketable securities		86,175	-	**86,175**	151,960	-	**151,960**	180,608	-	**180,608**
Receivables		10,360	-	**10,360**	37,173	-	**37,173**	44,766	-	**44,766**
Inventory		248,757	-	**248,757**	504,803	-	**504,803**	838,160	-	**838,160**
Prepaid expenses		16,187	-	**16,187**	29,277	-	**29,277**	11,022	-	**11,022**
		565,989	-	**565,989**	935,815	-	**935,815**	1,195,681	-	**1,195,681**
Due from related paries		174,699	-	**174,699**	89,418	-	**89,418**	35,241	-	**35,241**
Reclamation bonds		53,613	-	**53,613**	53,677	-	**53,677**	53,739	-	**53,739**
Exploration and evaluation assets		11,826,925	-	**11,826,925**	11,876,118	-	**11,876,118**	10,429,214	-	**10,429,214**
Equipment		888,596	-	**888,596**	854,127	-	**854,127**	820,507	-	**820,507**
Other assets		7,535	-	**7,535**	7,535	-	**7,535**			
		13,517,357	-	**13,517,357**	13,816,690	-	**13,816,690**	12,534,382	-	**12,534,382**

14. Conversion to IFRS (continued):

IFRS Reconcilication of Consolidated Statements of Financial Position:

		As at August 1, 2010			As at January 31, 2011			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 liabilities:										
Accounts payable and accrued liabilities		496,784	-	**496,784**	320,806	-	**320,806**	478,392	-	**478,392**
Other short-term liabilities		10,825	-	**10,825**	10,825	-	**10,825**	10,825	-	**10,825**
Due to related parties		1,161,297	-	**1,161,297**	1,346,807	-	**1,346,807**	1,633,497	-	**1,633,497**
		1,668,906	-	**1,668,906**	1,678,438	-	**1,678,438**	2,122,714	-	**2,122,714**
Future income taxes (note 13(b))		1,402,036	-	**1,402,036**	1,402,036	-	**1,402,036**	1,164,861	-	**1,164,861**
Non-controlling interest (note 2(a))		1,389,605	-	**1,389,605**	1,389,605	-	**1,389,605**	702,702	-	**702,702**
Shareholders' equity:										
Share capital		27,548,006	-	**27,548,006**	28,212,895	-	**28,212,895**	28,319,338	-	**28,319,338**
Reserves:							**-**			**-**
Stock options	14a		1,710,631	**1,710,631**		1,822,674	**1,822,674**		1,851,107	**1,851,107**
Warrants	14a		-	**-**			**-**		5,557	**5,557**
Contributed surplus	14a	1,710,631	(1,710,631)	**-**	1,822,674	(1,822,674)	**-**	1,856,664	(1,856,664)	**-**
AOCI (notes 5 and 13)		35,527	-	**35,527**	101,311	-	**101,311**	130,178	-	**130,178**
Deficit		(20,237,354)	-	**(20,237,354)**	(20,790,269)	-	**(20,790,269)**	(21,762,075)	-	**(21,762,075)**
		9,056,810	-	**9,056,810**	9,346,611	-	**9,346,611**	8,544,105	-	**8,544,105**
		13,517,357	-	**13,517,357**	13,816,690	-	**13,816,690**	12,534,382	-	**12,534,382**

14. Conversion to IFRS (continued):

IFRS Reconcilication of Consolidated Statements of Loss and Comprehensive Loss:

	Note	Three months ended January 31, 2011 GAAP	Effect of conversion to IFRS	IFRS	Six months ended January 31, 2011 GAAP	Effect of conversion to IFRS	IFRS
Expenses:							
Advertising and promotion		17,568	-	**17,568**	38,415	-	**38,415**
Amortization		1,350	-	**1,350**	2,803	-	**2,803**
Consulting		51,090	-	**51,090**	98,738	-	**98,738**
Office and administration		120,616	-	**120,616**	209,421	-	**209,421**
Professional fees		53,898	-	**53,898**	35,774	-	**35,774**
Rent		4,912	-	**4,912**	8,596	-	**8,596**
Shareholder communication		11,107	-	**11,107**	18,186	-	**18,186**
Share-based payment	14b	47,118	-	**47,118**	112,043	-	**112,043**
Travel and accommodation		4,876	-	**4,876**	4,266	-	**4,266**
Transfer agent and filing fees		8,564	-	**8,564**	749	-	**749**
		321,099	-	**321,099**	528,991	-	**528,991**
Loss before other items		(321,099)	-	**(321,099)**	(528,991)	-	**(528,991)**
Other items:							
Interest income		49	-	**49**	265	-	**265**
Other income		-	-	**-**	5,000	-	**5,000**
Foreign exchange gain (loss)		8,757	-	**8,757**	4,422	-	**4,422**
Write-down of mineral properties (note 9(a)(iv), and (c)(i))		-	-	**0**	(33,611)	-	**(33,611)**
		8,806	-	**8,806**	(23,924)	-	**(23,924)**
Loss before income taxes		(312,293)	-	**(312,293)**	(552,915)	-	**(552,915)**
Recovery of future income taxes (note 13)		-	-	**-**	-	-	**-**
Loss for the period		(312,293)	-	**(312,293)**	(552,915)	-	**(552,915)**
Deficit, beginning of the period		(20,477,976)	-	**(20,477,976)**	(20,237,354)	-	**(20,237,354)**
Deficit, end of the period		$ (20,790,269)	$ -	**$ (20,790,269)**	$ (20,790,269)	$ -	**$ (20,790,269)**
Loss per share - basic and diluted		(0.01)		**(0.01)**	(0.01)		**(0.01)**
Weighted average number of shares outstanding		68,362,861		**68,362,861**	63,976,034		**63,976,034**

Consolidated Statement of Comprehensive Loss

Three and six months ended January 31, 2011

	Three months ended January 31, 2011			Six months ended January 31, 2011		
Loss of the period	$ (312,293)	$ -	**$ (312,293)**	$ (552,915)	-	**$ (552,915)**
Other comprehensive income (loss):						
Unrealized gain/loss on available-for-sale marketable securities (note5)	101,311	-	**101,311**	101,311	-	**101,311**
Comprehensive loss for the period	$ (210,982)	$ -	**$ (210,982)**	$ (451,604)	$ -	**(451,604)**

See accompanying notes to consolidated financial statements

14. Conversion to IFRS (continued):

IFRS Reconcilication of Consolidated Statements of Cash Flows:

		Six months ended January 31, 2011			Year ended July 31, 2011		
	Note	GAAP	Effect of conversion to IFRS	**IFRS**	GAAP	Effect of conversion to IFRS	**IFRS**
Cash provided by (used in):							
Operating activities:							
Loss for the period		(552,915)	-	**(552,915)**	(1,524,721)	-	**(1,524,721)**
Items not involving cash:							
Amortization		2,804	-	**2,804**	5,226	-	**5,226**
Future income tax recovery		-	-	**-**	(256,443)	-	**(256,443)**
Share-based payment	14b	112,043	-	**112,043**	140,477	-	**140,477**
Gain on sales of marketable securities		-	-	**-**	(67,805)	-	**(67,805)**
Unrealized foreign exchange gain/loss		(4,422)	-	**(4,422)**	(63,315)	-	**(63,315)**
Write-down of mineral properties		33,611	-	**33,611**	892,106	-	**892,106**
		(408,879)	-	**(408,879)**	(874,475)	-	**(874,475)**
Changes in non-cash working capital:							
Amounts receivable		(26,813)	-	**(26,813)**	(34,406)	-	**(34,406)**
Inventory		(256,046)	-	**(256,046)**	(589,403)	-	**(589,403)**
Other assets		-	-	**-**	7,535	-	**7,535**
Prepaid expenses and advances		(13,090)	-	**(13,090)**	5,165	-	**5,165**
Accounts payable and accrued liabilities		9,532	-	**9,532**	(18,392)	-	**(18,392)**
Due to related parties		-	-	**-**	472,200	-	**472,200**
Repayment of amounts to related parties		85,281	-	**85,281**	139,458	-	**139,458**
		(610,015)	-	**(610,015)**	(892,318)	-	**(892,318)**
Financing activities:							
Shares issued for cash and properties		692,715	-	**692,715**	814,715	-	**814,715**
Share issue costs		(27,826)	-	**(27,826)**	(37,826)	-	**(37,826)**
		664,889	-	**664,889**	776,889	-	**776,889**
Investing activities:							
Exploration and evaluation assets		(46,718)	-	**(46,718)**	(49,485)	-	**(49,485)**
Proceeds on sale of marketable securities			-	**-**	81,655	-	**81,655**
Reclamation bond		(64)	-	**(64)**	(126)	-	**(126)**
		(46,782)	-	**(46,782)**	32,044	-	**32,044**
Decrease in cash and cash equivalents		8,092	-	**8,092**	(83,385)	-	**(83,385)**
Cash and cash equivalents, beginning of period		204,510	-	**204,510**	204,510	-	**204,510**
Cash and cash equivalents, end of period		212,602	-	**212,602**	121,125	-	**121,125**

15. Financial risk management:

(a) Fair value of financial instruments:

As at January 31, 2012, the Company's financial instruments consist of cash and cash equivalents, receivables, deposits and accounts payable and accrued liabilities. Cash and cash equivalents and deposits are classified as fair value through profit and loss and measured at fair value. Receivables are classified as loans and receivables and measured at amortized cost. Accounts payable and accrued liabilities are classified as other 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.

(b) Financial instruments risk:

The Company is exposed in varying degrees to a variety of financial risks. The Board of Directors has overall responsibility for the establishment and oversight of the Company's risk management procedures.

The types of risk exposure and the way such exposure is managed are provided as follows:

(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 and amounts receivable. Cash and investments are with Schedule 1 banks or equivalent, with the majority of 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 credit risk in amounts receivable is considered low by management as they consist primarily of amounts owing from government authorities in relation to refundable HST of $70,989.

(ii) Liquidity risk:

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company has in place a planning and budgeting process to assist in determining the funds required to support normal operating requirements on an ongoing basis, including capital development and exploration expenditures. This process resulted in the decision in October 2008 to enter into a service agreement with Daye Gold Mine for the underground operation of Golden Rose Shaft, the agreement was extended in October 2009 and renewed on annual basis. As at January 31, 2012, the Company had a cash and cash equivalent balance of $25,612 (2011 - $212,602) to settle accounts payable and accrued liabilities of $3,121,560 (2011 - $1,678,438), the Company has a working capital deficiency of $1,498,928 and is relying on the financial support of a related company. Accounts payable and accrued liabilities are due within the current operating period and include $1,897,282 due to a related company. These financial statements assume the related company will not demand repayment of the debt prior to Goldrea generating sufficient cash to repay this amount. See note 1 for additional discussion on going concern.

(iii) Market risk:

The Company's primary market risk is in the areas of metal prices and foreign exchange risk on financial instruments in other than Canadian dollars. At January 31, 2012, the Company had no hedging agreements in place with respect to metal prices or exchange rates.

15. Financial risk management: (continued):

(iii) Market risk (continued):

(a) Commodity price risk:

The value of the Company's primary mineral property is dependent on the price of gold and the outlook for this mineral. The value of exploration stage gold and molybdenum properties is also dependent on the price of gold and molybdenum and the outlook for the minerals.

Market prices for these metals historically have fluctuated widely and are affected by numerous factors outside of the Company's control including but not limited to, levels of worldwide production, short-term changes in supply and demand, industrial and retail demand, central bank lending, and forward sales by producers and speculators, as well as certain other factors related specifically to gold.

The profitability of the Company's primary property is highly correlated to the market price of gold. If gold prices decline for a prolonged period below the cost of production it may not be economically feasible to continue to over towards production.

The Company has not entered into any hedging or commodity based derivative financial instruments.

(b) Currency risk:

The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company has offices in Canada, the United States, and China and holds cash in Canadian, United States and Chinese currencies in line with forecasted expenditures. A significant change in the currency exchange rates between the Canadian dollar relative to US dollar and Chinese Renminbi could have an effect on the Company's results of operations, financial position or cash flows. At January 31, 2012 the Company had no hedging agreements in place with respect to foreign exchange rates.

At January 31, 2012, the Company is exposed to currency risk through the following assets and liabilities denominated in foreign currencies.

		USD		Rmb
Cash and cash equivalent	$	9,824	¥	48,639
Accounts payable and accrued liabilities		(65)		(10,966,459)
Total	$	9,759	¥	(10,917,820)
Canadian dollar foreign exchange rate		1.0052		0.1593
Balance sheet exposure in Canadian dollar equivalent		9,810		(1,739,209)

15. Financial risk management: (continued):

(iii) Market risk (continued):

(c) Sensitivity analysis:

A 10% strengthening (weakening) in the Canadian dollar against the USD and Rmb currencies at January 31, 2012 would have increased (decreased) net loss by the amounts shown below. This analysis assumes that all other variables, in particular, interest rate, remain constant:

January 31, 2012	Change in CAD$
USD	981
Rmb	173,921

(d) Equity price risk:

Equity price risk arises from available-for-sale equity securities. The Company's exposure at January 31, 2012 was $88,528. The shares are publicly traded, market-prices are readily available, and their carrying value is equal to the market value at January 31, 2012.

(e) 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 cash and cash equivalents contain highly liquid investments that earn interest at market rates and have maturities of 90 days or less. The interest is typical of Canadian banking rates, which are presently low, however this conservative investment strategy mitigates the risk of deterioration to the investment. A change of 100 basis points in the interest rates would not be material to the financial statements.

16. 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 mineral 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 properties in which the Company currently has an interest in are in the exploration and pre-development stages, 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 three months ended January 31, 2012

GOLDREA RESOURCES CORP.

Schedule of Exploration and Evaluation Asset Expenditures
Three and six months ended January 31, 2012, with comparative figures for 2010 FY and 2011 FY

	July 31, 2010	Expenditures (recoveries or write-downs)	July 31, 2011	Expenditures (recoveries or write-downs)	January 31, 2012
Canada - British Columbia:					
BX/Eskay Creek:					
Acquisition	$ 20,564	$ -	$ 20,564	$ -	$ -
Assay and analysis	774	-	774	-	-
Option payments received	(26,192)	-	(26,192)	-	-
Equipment rentals	1,982	-	1,982	-	-
Engineering and geological	59,912	-	59,912	-	-
Freight and transportation	112	-	112	-	-
Write-down provision	-	(33,611)	(33,611)	-	-
METC refund	(23,541)	-	(23,541)	-	-
	33,611	(33,611)	-	-	-
Crowrea:					
Acquisition	7,767	1,610	9,377	-	9,377
Assay and analysis	8,871	183	9,054	-	9,054
Camp and supplies	665	-	665	-	665
Drilling	119,645	-	119,645	-	119,645
Engineering and geological	70,228	-	70,228	-	70,228
Equipment rentals and subcontractor	6,904	-	6,904	-	6,904
METC refund	(54,774)	-	(54,774)	-	(54,774)
	159,306	1,793	161,099	-	161,099
Flap:					
Acquisition	8,369	109	8,478	-	8,478
Assay and analysis	30,971	-	30,971	-	30,971
Drilling	34,383	-	34,383	-	34,383
Engineering and geological	56,085	6,010	62,095	-	62,095
METC refund	(4,454)	-	(4,454)	-	(4,454)
	125,354	6,119	131,473	-	131,473
Empress:					
Acquisition	4,632	-	4,632	92	4,724
Assay and analysis	10,451	-	10,451	-	10,451
Drilling	192,341	-	192,341	-	192,341
Engineering and geological	53,790	4,771	58,561	-	58,561
METC refund	(75,180)	-	(75,180)	-	(75,180)
	186,034	4,771	190,805	92	190,897
Wigwam					
Acquisition	-	42,000	42,000	658	42,658
Assay and analysis	-	-	-	1,212	1,212
Engineering and geological	-	-	-	8,982	8,982

GOLDREA RESOURCES CORP.

Schedule of Exploration and Evaluation Asset Expenditures, Continued
Three and six months ended January 31, 2012, with comparative figures for 2010 FY and 2011 FY

-	42,000	42,000	10,852	52,852

	July 31, 2010	Expenditures (recoveries or write-downs)	July 31, 2011	Expenditures (recoveries or write-downs)	January 31, 2012
USA - Arizona:					
Gold Chain:					
Option payments received	$ -	$ (9,787)	$ (9,787)	$ (10,000)	$ (19,787)
Acquisition	51,898	2,453	54,351	-	54,351
Assay and analysis	21,577	-	21,577	-	21,577
Drilling	42,346	136	42,482	-	42,482
Engineering and geological	30,940	732	31,672	-	31,672
	146,761	(6,466)	140,295	(10,000)	130,295
Gold Rush:					
Option payments received	-	(9,787)	(9,787)	(10,000)	(19,787)
Acquisition	61,654	4,762	66,416	-	66,416
Assay and analysis	24,821	-	24,821	-	24,821
Drilling	36,874	136	37,010	-	37,010
Engineering and geological	60,496	732	61,228	-	61,228
	183,845	(4,157)	179,688	(10,000)	169,688
China - Shandong Province:					
Rushan Goldrea Gold (RGG):					
Acquisition	2,301,058	5,059	2,306,117	-	2,306,117
Mineral rights contributed (note 2(a)))	702,702	-	702,702	-	702,702
Administration	577,469	86,578	664,047	39,579	703,626
Assay and analysis	131,757	(14,805)	116,952	-	116,952
Drilling	2,609,415	-	2,609,415	17,818	2,627,233
Engineering and geological	649,579	35,080	684,659	-	684,659
Shaft	1,132,537	2,352	1,134,889	1,144	1,136,033
Travel	96,648	1,430	98,078	-	98,078
Future income taxes related to above	1,238,870	28,124	1,266,994	-	1,266,994
	9,440,035	143,818	9,583,853	58,541	9,642,394
Rushan Ludi Goldrea Gold (LGG):					
Acquisition	58,861	-	58,861	-	-
Mineral rights contributed (note 2(a)))	686,903	(686,903)	-	-	-
Administration	73,191	7,552	80,743	-	-
Assay and analysis	24,902	-	24,902	-	-
Drilling	439,423	(14,135)	425,288	-	-
Engineering and geological	25,887	-	25,887	-	-
Future income taxes related to above	242,812	(242,812)	-	-	-
Write-down provision	-	(615,681)	(615,681)	-	-
	1,551,979	(1,551,979)	-	-	-
Total mineral property costs	$ 11,826,925	$ (1,397,712)	$ 10,429,214	$ 49,485	$ 10,478,699