

Consolidated Financial Statements  
(Expressed in Canadian dollars)

**GOLDREA RESOURCES CORP.**

Years ended July 31, 2013 and 2012



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## **INDEPENDENT AUDITORS' REPORT**

To the Shareholders of Goldrea Resources Corp.

We have audited the accompanying consolidated financial statements of Goldrea Resources Corp. which comprise the consolidated statements of financial position as at July 31, 2013 and 2012, the consolidated statements of comprehensive income, changes in shareholders' equity and cash flows for the years then ended, and notes, comprising 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 audit. We conducted our audit in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on our 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, we consider 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 consolidated financial position of Goldrea Resources Corp as at July 31, 2013 and 2012, and its consolidated financial performance and its consolidated cash flows for the years then ended, in accordance with International Financial Reporting Standards.

### *Emphasis of Matter*

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which describes that the Company has incurred significant losses in 2013, and had an accumulated deficit and working capital deficiency at July 31, 2013. These conditions, along with other matters as set forth in note 1, indicate the existence of a material uncertainty that may cast substantial doubt about the Company's ability to continue as a going concern.

A handwritten signature in black ink that reads 'KPMG LLP' with a horizontal line underneath.

Chartered Accountants

November 28, 2013  
Vancouver, Canada

# GOLDREA RESOURCES CORP.

Consolidated Balance Sheets  
(Expressed in Canadian dollars)

	July 31 2013	July 31 2012
<b>Assets</b>		
Current assets:		
Cash and cash equivalents (note 4)	\$ 170,871	\$ 134,141
Marketable securities (note 6)	4,465	19,341
Amounts receivable	121,438	80,775
Inventory (note 7)	1,616,296	1,616,296
Prepaid expenses and advances	1,646	2,772
	1,914,716	1,853,325
Due from related parties (note 8)	24,953	23,888
Reclamation deposits	50,676	53,922
Equipment (note 9)	734,599	760,926
Exploration and evaluation assets (note 10 and Schedule)	753,405	841,367
Mineral property assets (note 11 and Schedule)	1,440,424	1,700,000
	\$ 4,918,773	\$ 5,233,428
<b>Liabilities and Shareholder's Equity</b>		
Current liabilities:		
Accounts payable and accrued liabilities	\$ 398,958	\$ 753,651
Other short-term liabilities	1,196	10,825
Loan current portion (Note 12(e))	\$ 83,585	-
Due to related parties (note 8)	\$ 3,291,957	2,781,929
	3,775,696	3,546,405
Loan (note 12(e))	-	188,880
Equity:		
Share capital (note 12 (a))	28,470,973	28,349,338
Reserves (note 12)	1,865,868	1,865,868
Accumulated other comprehensive income (note 6 and 16)	(20,358)	(5,482)
Deficit	(29,186,896)	(28,747,200)
Equity attributable to owners of the Company	1,129,587	1,462,524
Non-controlling interest (note 3(a) and 11(i))	13,490	35,619
Total equity	1,143,077	1,498,143
	\$ 4,918,773	\$ 5,233,428
Going concern (note 1)		

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board:

**"James Elbert"**

Director

**"Larry Reaugh"**

Director

# GOLDREA RESOURCES CORP.

Consolidated Statements of Operations  
(Expressed in Canadian dollars)

For the Year Ended July 31			2013	2012
Expenses:				
Advertising and promotion	\$	(9,453)	\$	45,732
Amortization		3,678		3,909
Consulting		(16,091)		123,756
Office and administration		126,347		314,987
Professional fees		67,256		120,251
Rent		1,919		17,531
Shareholder communication		630		22,896
Share-based payment		-		9,204
Travel and accommodation		-		13,661
Transfer agent and filing fees		20,857		18,089
		195,143		690,016
Loss before other items		(195,143)		(690,016)
Other items:				
Interest income		489		670
Write-down of mineral property costs (note 11)		(55,963)		(6,670,833)
Realized gain on sale of marketable securities		-		18,737
Foreign exchange loss		(211,208)		(189,927)
		(266,682)		(6,841,353)
Loss for the year	\$	(461,825)	\$	(7,531,369)
Attributable to:				
Shareholders of the Company		(439,696)		(6,864,286)
Non-controlling interest		(22,129)		(667,083)
		(461,825)		(7,531,369)
Deficit, beginning of year		(28,747,200)		(21,882,914)
Deficit, end of year	\$	(29,186,896)	\$	(28,747,200)
Loss per share - basic and diluted	\$	(0.01)	\$	(0.10)
Weighted average number of shares outstanding		74,467,471		70,558,704
For the Year Ended July 31			2013	2012
(Loss) for the year	\$	(461,825)	\$	(7,531,369)
Other comprehensive income (loss):				
Unrealized loss on available-for-sale marketable securities (note 6)		(14,876)		(135,629)
Reclassification of realized gain				(18,737)
Comprehensive loss for the year	\$	(476,701)	\$	(7,685,735)

# GOLDREA RESOURCES CORP.

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

Years ended July 31, 2013 and 2012

	Share capital		Reserves		Accumulated comprehensive income	Deficit	Owner's Equity	Non- controlling interest	Total
	Number of shares	Amount	Stock Options	Warrants					
	#	\$	\$	\$	\$	\$	\$	\$	\$
Balance July 31, 2011	70,279,252	28,319,338	1,851,108	5,556	148,884	(21,882,914)	8,441,972	702,702	9,144,674
Comprehensive loss for the year	-	-	-	-	(154,366)	(6,864,286)	(7,018,652)	(667,083)	(7,685,735)
Bonus shares issued	1,000,000	30,000	-	-	-	-	30,000	-	30,000
Share-based payment			9,204	-			9,204	-	9,204
Balance July 31, 2012	71,279,252	28,349,338	1,860,312	5,556	(5,482)	(28,747,200)	1,462,524	35,619	1,498,143
Comprehensive loss for the year	-	-	-	-	(14,876)	(439,696)	(454,572)	(22,129)	(476,701)
Private placement	4,100,000	123,000	-	-	-	-	123,000	-	123,000
Share issuance costs	-	(1,365)	-	-	-	-	(1,365)	-	(1,365)
Balance July 31, 2013	75,379,252	28,470,973	1,860,312	5,556	(20,358)	(29,186,896)	1,129,587	13,490	1,143,077

See accompanying notes to consolidated financial statements.

# GOLDREA RESOURCES CORP.

Consolidated Statements of Cash Flows  
(Expressed in Canadian dollars)

	For the Year Ended July 31	
	2013	2012
Cash provided by (used in):		
Operating activities:		
Loss for the year	\$ (461,825)	\$ (7,531,369)
Items not affecting cash:		
Amortization	3,678	3,909
Share-based payment	-	9,204
Unrealized foreign exchange (gain)/loss	-	30,195
Unrealized loss (gain) on marketable securities	-	(18,737)
Bonus Common share expense	-	30,000
Interest income	-	445
Write-down of mineral properties	55,963	6,670,833
	(402,184)	(805,520)
Changes in non-cash working capital:		
Amounts receivable	(7,739)	(36,009)
Inventory	-	(778,406)
Due from related parties	510,028	11,353
Prepaid expenses and advances	1,126	8,250
Accounts payable and accrued liabilities	(319,025)	275,532
Interest received	-	(445)
Due to related parties	(1,065)	1,148,432
	(218,859)	(176,813)
Financing activities:		
Shares issued for cash	123,000	-
Share issue costs	(1,365)	-
Loan Repayment	(105,295)	-
Loan proceeds	-	188,800
	16,340	188,800
Investing activities:		
Mineral property and exploration and evaluation costs	(263,997)	(24,425)
Proceeds on sale of marketable securities	-	
Cash deposit received on sale of China interest (Note 11)	500,000	25,637
Reclamation bond recovery	3,246	(183)
Change in cash and cash equivalents	36,730	13,016
Cash and cash equivalents, beginning of period	134,141	121,125
Cash and cash equivalents, end of period	170,871	\$ 134,141

See accompanying notes to consolidated financial statements.

# GOLDREA RESOURCES CORP.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended July 31, 2013 and 2012

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## 1. Going concern:

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 exploration 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 July 31, 2013, the Company has a deficiency in working capital of \$1,860,980. The Company currently has a payable of \$3,291,957 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 Company has experienced difficulty in raising funds to develop Rushan Goldrea Gold Property ("RGG") into production. In November 2012, the Company announced its intention to sell its interest in RGG.

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. 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. The Company has insufficient cash resources to meet its current obligations and planned expenditures and is in the process of seeking additional financing. These conditions raise substantial doubt about the Company's ability to continue as a going concern.

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. The 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, contingent obligations and commitments in other than the normal course of business and at amounts different from those in these financial statements.



# GOLDREA RESOURCES CORP.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended July 31, 2013 and 2012

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## 2. Basis of preparation:

### (a) Statement of compliance:

These consolidated financial statements have been prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB").

The consolidated financial statements were authorized for issue by the Board of Directors on November 29, 2013. The accounting policies set out below have been applied consistently to all periods presented in these consolidated financial statements, unless otherwise indicated.

### (b) Basis of measurement:

The consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as available-for-sale financial assets, which are measured at fair value, and provision for site reclamation, which is recorded at management's best estimate of fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

### (c) Functional and presentation currency:

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

### (d) Use of estimates and judgments:

The preparation of the Company's consolidated financial statements in conformity with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the consolidated financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. However, actual outcomes can differ from these estimates. Revisions to accounting estimates are recognized in the period in which the change in estimate occur 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 and mineral properties, the continuing viability of mineral property interests, valuation of inventory, fair value measurements for financial instruments, share-based payments, and other equity-based payments, the determination of reclamation obligations, the valuation allowance on deferred income tax assets, 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.

# GOLDREA RESOURCES CORP.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended July 31, 2013 and 2012

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### 3. Significant accounting policies:

#### (a) 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, its wholly-owned subsidiaries, Goldrea USA Inc., Gold Vessel Investments Limited, incorporated in Hong Kong, and its 90% owned subsidiary, Rushan Goldrea Gold Inc. ("RGG"), incorporated in the People's Republic of China (note 10(c)).

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

#### (b) 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.

#### (c) 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 other 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 consolidated 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. Loans and receivable includes cash and cash equivalents, amounts receivable and amounts due from related parties.

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 and are measured initially and subsequently at fair value. These are included in current assets. Marketable securities have been classified as available-for-sale. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses.

# GOLDREA RESOURCES CORP.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended July 31, 2013 and 2012

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## 3. Significant accounting policies (continued):

### (c) Financial instruments (continued):

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. Other financial liabilities include account payable and accrued liabilities, other short term liabilities, amounts due to related parties, and non-current loan.

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

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

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

### (d) 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.

### (e) 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.

### (f) 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.

### (g) 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.

# GOLDREA RESOURCES CORP.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended July 31, 2013 and 2012

## 3. Significant accounting policies (continued):

### (g) Equipment:

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

Asset	Basis	Rate
Furniture and fixtures	Declining balance	20%
Computer hardware	Declining balance	30%
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.

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.

### (h) 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. Costs incurred before the Company has obtained the legal rights to explore a mineral property are expensed as incurred.

Government tax credits and option payments 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.

# GOLDREA RESOURCES CORP.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended July 31, 2013 and 2012

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## 3. Significant accounting policies (continued):

### (h) Exploration and evaluation assets (continued):

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.

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.

### (i) Impairment of long-lived assets:

The carrying amount of the Company's long-lived assets (which include equipment, exploration and evaluation assets and mineral property 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 ("CGU") 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.

### (j) 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. 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, 2013, and 2012, the Company has determined that it does not have material decommissioning obligations.

# GOLDREA RESOURCES CORP.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended July 31, 2013 and 2012

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## 3. Significant accounting policies (continued):

### (k) 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 share purchase 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.

### (l) Revenue recognition:

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

### (m) Share-based payments:

The Company has an employee share purchase option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over their respective 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. The expected term to exercise is based upon historical data of the average hold period before exercise.

Expected volatility is estimated with reference to the historical share price volatility of the Corporation's share price.

### (n) 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

# GOLDREA RESOURCES CORP.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended July 31, 2013 and 2012

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## 3. Significant accounting policies (continued):

### (n) Flow-through shares (continued):

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.

### (o) 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.

### (p) Earnings (Loss) per share:

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

### (r) Mineral properties

Mineral properties include expenditures incurred in acquiring mineral and development rights and developing new mining operation. Capital mine development costs include expenditures incurred to develop new ore bodies, to define future mineralization in existing ore bodies and to extend the capacity of a mine.

Mine development costs are, upon commencement of productions, depreciated using a unit of production method based on the estimated proven and probable recover to which they relate or are written off if the property is abandoned.

# GOLDREA RESOURCES CORP.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended July 31, 2013 and 2012

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### 3. Significant accounting policies (continued):

#### (r) Mineral properties (continued):

Costs associated with commissioning of new assets are capitalized as mineral property costs in the period before they are opening in the way intended by management.

### 4. Foreign currency:

The Company's cash consists of CAD\$100,270 in the bank in Canada, US\$280 (CAD\$287 equivalent) held in Goldrea USA Inc., HKD\$158,926 (CAD\$21,121 equivalent), Rmb 293,160 (CAD\$49,192 equivalent) held in China of which Rmb 903,386 (CAD\$44,176 equivalent) is held in a trust account under the terms of a trust agreement between the Company and one of its lenders (note 11(e)). The Company can access these funds without restriction.

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.

### 5. Recent accounting pronouncements:

The following IFRS standards have been recently issued by the International Accounting Standards Board ("IASB"): 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, 2015. 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 August 1, 2013 and is currently evaluating the impact on its consolidated financial statements.



# GOLDREA RESOURCES CORP.

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## 5. Recent accounting pronouncements:

### (c) IFRS 12 - Disclosure of Interests in Other Entities:

IFRS 12 contains the disclosure requirements for entities that have interests in subsidiaries, joint arrangements (i.e. joint operations or joint ventures), associates and/or unconsolidated structured entities. Interests are widely defined as contractual and non-contractual involvement that exposes an entity to variability of returns from the performance of the other entity. 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.

### (d) IFRS 13, - Fair Value Measurement:

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

### (e) IAS 1 - Presentation of Financial Statements:

IAS 1 - Presentation of Financial Statements requires an entity to group items presented in the statement of other comprehensive income on the basis of whether they may be reclassified to profit or loss subsequent to initial recognition. For those items presented before tax, the amendment to IAS 1 also require that the tax related to the two separate groups be presented separately.

### (f) IFRIC20 - Stripping Costs in the Production Phase of a Surface Mine

IFRIC 20 was issued in October 2011. IFRIC 20 clarifies the requirements for accounting for the costs of stripping activity in the production phase when two benefits accrue: (i) usable ore that can be used to produce inventory, and (ii) improved access to further quantities of material that will be mined in future periods. This IFRIC will have no material impact on the Company's financial statements.

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## 6. Marketable securities:

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

<b>July 31, 2013</b>	<b>Fair value</b>	<b>Cost</b>	<b>Accumulated unrealized gains (losses)</b>
Nevada Clean Magnesium Inc. <sup>(1)</sup>			
50,000 common shares	\$ 500	\$ 5,000	\$ (4,500)
American Manganese Inc.			
198,234 common shares	3,965	19,823	(15,858)
	\$ 4,465	\$ 24,823	\$ (20,358)
<sup>(1)</sup> Molycor Gold Corp changed name into Nevada Clean Magnesium Inc. ("NVM") and its shares converted 1:1 on April 17, 2012.			
<b>July 31, 2012</b>	<b>Fair value</b>	<b>Cost</b>	<b>Accumulated unrealized gains (losses)</b>
Molycor Gold Corp. <sup>(1)</sup>			
50,000 common shares	\$ 1,500	\$ 5,000	\$ (3,500)
American Manganese Inc.			
267,234 common shares	17,841	19,823	(1,982)
	\$ 19,341	\$ 24,823	\$ (5,482)
<sup>(1)</sup> Molycor Gold Corp changed name into Nevada Clean Magnesium Inc. ("NVM") and its shares converted 1:1 on April 17, 2012			
<sup>(2)</sup> Chalice Diamond changed name into La Ronge Gold ("LAR") and its shares converted 1:1 on July 7, 2011. 3,333 of La Ronge Gold shares were sold on March 6, 2012.			

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## 7. Inventory:

		31-Jul-13	31-Jul-12
Stockpile		1,616,296	1,616,296
Total inventory		1,616,296	1,616,296

Stockpiled ore is valued at the lower of cost and net realizable value. As at July 31, 2013, the Company has an inventory of \$1,616,296 representing the costs of mining 46,809 tonnes of stockpiled ore.

## 8. 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 Nevada Clean Magnesium Inc. (formerly Nevada Clean Magnesium Gold Corporation), and American Manganese Inc. (formerly Rocher Deboile Minerals Corp.,) (American Manganese). The Company and Nevada Clean Magnesium Inc. are 50/50 joint venture participants in various properties in British Columbia.

		31-Jul-13
Due from Nevada Clean Magnesium Inc. <sup>(1)</sup>	\$	19,205
Due from directors and officers of the Company		5,748
Subtotal due from related party	\$	24,953
Due to American Manganese Inc.	\$	(167,603)
Due to directors		
RGG accounts payable to Daye Gold Mine		(3,124,354)
Subtotal due to related party	\$	(3,291,957)

# GOLDREA RESOURCES CORP.

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(Expressed in Canadian dollars)

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## 8. Related party transactions (Continued)

During the year ended July 31, 2013:

- consulting fees of \$Nil (2012 - \$70,000) were payable to a company owned by a director and \$Nil (2012 - \$13,574) was paid to a director;
- administrative fees of \$97,361 (2012 - \$126,300) were paid to executive directors and officers of the Company;
- office building use and technical support service fees of Rmb \$36,000 (CAD \$5,738) (2012 - Rmb 36,000 (CAD\$5,763)) and ore mining fees of Rmb 189,834 (CAD\$37,019) (2012 - Rmb 4,905,414 (CAD\$887,716)) were accrued payable to Daye Gold Mine, a 10% owner of RGG. As at July 31, 2013, total accounts payable to Daye Gold Mine amounted \$3,124,354 (2012 - \$2,521,113). The Company intends to settle the amount owing to Daye Gold Mine with proceeds from the processing and sale of inventory.

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.

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## 9. Equipment:

	Office equipment	Furniture and fixtures	Computer equipment	Vehicle	Machinery	Corehouse	Construction in Progress <sup>(a)</sup>	Total
	\$	\$	\$	\$	\$	\$	\$	\$
<b>Costs</b>								
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, July 31, 2012	31,278	26,039	57,411	114,852	255,324	14,544	613,908	1,113,356
Balance, July 31, 2013	31,278	26,039	57,411	114,852	255,324	14,544	613,908	1,113,356
<b>Accumulated Depreciation</b>								
Balance, July 31, 2011	23,129	19,989	47,553	85,563	113,269	2,848	-	292,351
Charge for the period	2,183	1,640	3,108	21,893	30,566	690	-	60,080
Balance, July 31, 2012	25,312	21,629	50,661	107,456	143,835	3,538	-	352,431
Charge for the period	1,598	1,195	1,895	2,048	18,898	692	-	26,326
Balance, July 31, 2013	26,910	22,824	52,556	109,504	162,733	4,230	-	378,757
<b>Carrying amounts</b>								
July 31, 2011	8,149	6,050	9,359	29,289	142,055	11,696	613,908	820,506
July 31, 2012	5,966	4,410	6,750	7,396	111,489	11,006	613,908	760,925
July 31, 2013	4,368	3,215	4,855	5,348	92,591	10,314	613,908	734,599

<sup>(a)</sup> 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.

# GOLDREA RESOURCES CORP.

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(Expressed in Canadian dollars)

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## 10. Exploration and evaluation assets:

### (a) British Columbia, Canada:

#### (i) Dobbin Property, Nicola and Vernon Mining Division

The Company holds a 50% interest in various mining claims, some of which are partially owned by Nevada Clean Magnesium. In 2010, these properties were written down to \$Nil, however, they are still held in good standing, and in future, with improved economic conditions, the Company and Nevada Clean Magnesium could decide to reactivate work on these claims.

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

The Company holds a 50% interest in various mineral claims, some of which are 50% owned by Nevada Clean Magnesium Inc. 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 with Nevada Clean Magnesium 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 Nevada Clean Magnesium Inc. 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. The Company allowed the claims to expire on January 3, 2013. As a result the Company recorded a write-down of mineral property costs of \$55,963.

### (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.

# GOLDREA RESOURCES CORP.

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## 10. Exploration and evaluation assets (continued):

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

#### (i) Gold Chain Property (continued):

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, issuing 300,000 shares, and incurring \$500,000 in exploration expenditures. On December 12, 2012 Sandfield terminated the option agreement.

#### (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 and the 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, issuing 300,000 shares, and incurring \$500,000 in exploration expenditures. On December 12, 2012 Sandfield terminated the option agreement.

## 11. Mineral Property Assets

### (i) Rushan Goldrea Gold Property:

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.

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 were to be paid based on the percentage ownership in the Joint Venture. At July 31, 2010, 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.

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## 11. Mineral Property Assets (continued):

### (i) Rushan Goldrea Gold Property (continued):

On November 6, 2012, the Company announced that it is in negotiations to sell its 90% interest in the Rushan Goldrea Gold property ("RGG") for a total of \$1.5 million. CDN. The Company is in the process of finalizing an agreement with the interested parties. As at July 31, 2013 the Company received \$500,000.00 from a potential purchaser as a good faith payment

## 12. Share capital and reserves:

### (a) Authorized:

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

### (b) Issued:

As at July 31, 2013, there were 75,379,252 issued and fully paid common shares. (July 31, 2012 – 71,279,252)

### (c) Stock options:

Exercise price	Expiry date	July 31, 2012	Issued	Exercised	Forfeited	Expired	July 31, 2013
\$		#	#	#	#	#	#
0.14	February 24, 2015	6,030,000	-	-	(2,930,000)	-	3,100,000
		6,030,000	-	-	(2,930,000)	-	3,100,000
Exercise price	Expiry date	July 31, 2011	Issued	Exercised	Forfeited	Expired	July 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)	0	6,030,000



# GOLDREA RESOURCES CORP.

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## 12. Share capital and reserves (continued):

### (c) Stock options (continued):

The following table summarizes information about stock options outstanding at July 31, 2013:

Number of shares	Exercise price	Number exercisable	Weighted average remaining contractual life (years)	Expiry date
3,100,000	\$0.14	3,100,000	1.57	February 24, 2015
3,100,000		3,100,000	1.57	

### (d) Share purchase warrants:

Exercise price	Expiry date	1-Aug-12	Issued	Exercised	Forfeited	Expired	July 31, 2013
\$		#	#	#	#	#	
0.10	November 5, 2014	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)	-
0.05	October 5, 2014		3,900,000				3,900,000
0.10	January 8, 2015		200,000				200,000
		9,046,000	4,100,000	-	-	(1,128,000)	12,018,000
Exercise price	Expiry date	1-Aug-11	Issued	Exercised	Forfeited	Expired	31-Jul-12
\$		#	#	#	#	#	
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

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## 12. Share capital and reserves (continued):

### (d) Share purchase warrants (continued):

The following table summarizes information about share purchase warrants outstanding at July 31, 2013:

Number of shares	Exercise price	Weighted average remaining contractual life (years)	Expiry date
7,918,000	\$0.10	1.27	November 5, 2014
3,900,000	\$0.05	114.84	October 5, 2014
200,000	\$0.10	115.10	January 8, 2015
12,018,000		40.02	

\*Note: The TSX Venture Exchange has approved a two year extension for the 7,918,000 outstanding share purchase warrants expiring November 5, 2012. Each warrant is exercisable for one common share at a price of \$0.10 and the new expiry date for is November 5, 2014.

### (e) Financings:

In 2012 fiscal year,

- (i) On October 29, 2011, the Company obtained TSX approval for the issuance of 1,450,898 common shares to China Finance for total cash 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) The Company borrowed Rmb 1,200,000 (CAD \$188,800) from Chinese investors in March 2012, the funds will be used for its China operation. The loan has a term of eighteen months and bears an annual interest rate of 11%. The Company issued 1,000,000 shares as a bonus in connection to the loan but did not receive any cash in relation to the issuance of these shares, the value of the shares are recorded as cost in consolidated statement of loss.

In 2013 fiscal year,

- (i) On September 17, 2012 the Company completed a private placement of 4,100,000 units at a price of \$0.03 per unit. Each unit consists of one common share and one common share purchase warrant. Each common share purchase warrant entitles the holder to purchase one common share at a price of \$0.05 per share in the first year and \$0.10 per share in the second year from the date of issuance. Each common share purchase warrant has a life of two years.

### (f) Shares issued for exploration and evaluation assets:

- (i) The Company issued 400,000 common shares at fair value of \$22,000 for the acquisition of Wigwam property in 2012.
- (ii) There were no shares issued for property in 2013.

# GOLDREA RESOURCES CORP.

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(Expressed in Canadian dollars)

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## 13. 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 July 31, 2013 (2012 - nil). As of the year ended July 31, 2013 all employee stock options have fully vested. 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 for 2012 is as follows:

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	July 31, 2012
Risk free interest rate	1.4%
Expected life (years)	3.5
Expected volatility	95.8%
Expected dividends	-
Forfeiture rate	-
Weighted average fair value per option grant	\$ 0.0219

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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 as the goods and services are received 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 year ended July 31, 2013 share based compensation amounted to \$nil (2012 - \$9,207).

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## 14. 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:

		31-Jul-13	31-Jul-12
Net loss for the year			
Canada	\$	207,506	\$ 838,033
China		236,318	6,670,833
USA		18,001	22,503
	\$	461,825	\$ 7,531,369
Mineral properties and Exploration and Evaluation Assets			
Canada	\$	556,940	\$ 539,858
China		1,440,424	1,700,000
USA		196,465	301,509
	\$	2,193,829	\$ 2,541,367
Assets			
Canada	\$	956,057	\$ 870,612
China		3,779,372	4,061,307
USA		183,344	301,509
	\$	4,918,773	\$ 5,233,428

## 15. Income taxes:

### (a) Income taxes:

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

		2013	2012
Combined statutory tax rate		25.33%	25.63%
Computed tax recovery	\$	(116,980)	\$ (1,929,913)
Permanent differences		-	813,579
Change in deferred tax not recognized		116,980	1,101,065
Other		-	52,681
Recovery of income taxes	\$	(0)	\$ -

## 15. Income taxes (continued):

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(b) Deferred tax assets have not been recognized with respect to the following:

	2013	2012
Deductible temporary difference	\$ 5,981,358	\$ 5,981,358
Tax losses (Canada)	9,217,210	9,065,668
	\$ 15,198,568	\$ 15,047,026

The Corporation has Canadian tax loss carry forwards as approximately \$9,217,000CAD as at July 31, 2013. The non-capital losses in Canada expire at various dates to 2033.

No deferred tax asset has been recognized in respect of the above as the Company does not have any source of taxable income and there is uncertainty as to whether the Company will earn taxable income in the future. As a result, it is not currently probable that the benefit of such amounts will be realized.

## 16. Financial risk management:

(a) Fair value of financial instruments:

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 for amounts receivable and marketable securities. Fair value was obtained by level 2 hierarchy for the non-current loan,

(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 Chinese Renminbi in Chinese banking institutions. 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 GST.

# GOLDREA RESOURCES CORP.

Notes to Consolidated Financial Statements

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## 16. Financial risk management (continued):

### (b) Financial instruments risk (continued):

#### (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 July 31, 2013, the Company had a cash and cash equivalent balance of \$170,871 (2012 - \$134,141) accounts receivable of \$121,438 (2012-\$80,775), marketable securities of \$4,465(2012 - \$19,341), inventory of \$1,616,296 (2012 - \$1,616,296) and pre-paid expenses of \$1,646 (2012 - \$2,772) to settle accounts payable and accrued liabilities of \$3,775,696 (2012 - \$3,546,405). Accounts payable and accrued liabilities are due within the current operating period and include \$3,291,957 (2012-\$2,521,113) due to Daye Gold Mine. As at July 31, 2013, the Company has a working capital deficiency of \$1,860,980 (2012-\$1,693,080) and was relying on the financial support of a related company and subsequently on equity financing activity. 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 denominated in other than Canadian dollars. At July 31, 2013, the Company had no hedging agreements in place with respect to metal prices or foreign exchange rates.

#### (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 towards production.

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## 16. Financial risk management: (continued):

(b) Financial instruments risk (continued):

(iii) Market risk (continued):

(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 July 31, 2013, the Company is exposed to currency risk through the following assets and liabilities denominated in foreign currencies.

		HKD	USD		Rmb
Cash and cash equivalent	\$	154,186	280	¥	293,161
Accounts payable and accrued liabilities		-	(129)		(24,079,821)
Long-term borrowing					
Total	\$	154,186	150	¥	(23,786,660)
Canadian dollar foreign exchange rate		0.1329	1.00		0.1574
Balance sheet exposure in Canadian dollar equivalent		20,491	150		(3,744,020)

(C) Sensitivity analysis:

A 10% strengthening (weakening) in the Canadian dollar against the USD, HKD and Rmb currencies at July 31, 2013 would have increased (decreased) net loss by the amounts shown below. This analysis assumes that all other variables, in particular, interest rate, remain constant:

July 31, 2013				Change in CAD\$
HKD				2,049
USD				15
Rmb				374,402

# GOLDREA RESOURCES CORP.

Notes to Consolidated Financial Statements

(Expressed in Canadian dollars)

Years ended July 31, 2013 and 2012

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## 16. Financial risk management (continued):

### (D) Equity price risk:

Equity price risk arises from available-for-sale equity securities. The Company's exposure at July 31, 2013 was \$4,465. The shares are publicly traded, market-prices are readily available, and their carrying value is equal to the market value at July 31, 2013.

### (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.

## 17. 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 year ended July 31, 2013.



# GOLDREA RESOURCES CORP.

Schedule of Exploration and Evaluation Assets Costs (unaudited)

Year ended July 31, 2013, with comparative figures for 2012

	July 31, 2011	Expenditures (recoveries or write- downs)	July 31, 2011	Expenditures (recoveries or write- downs)	July 31, 2012	Expenditures (recoveries or write- downs)	July 31, 2013
<b>Canada - British Columbia:</b>							
<b>Dobbin:</b>							
Acquisition	7,505	-	7,505	-	7,505	-	7,505
Assay and analysis	45,387	-	45,387	-	45,387	-	45,387
Camp and supplies	19,045	-	19,045	-	19,045	-	19,045
Drilling	305,883	-	305,883	-	305,883	-	305,883
Engineering and geological	115,368	1,053	116,421	-	116,421	-	116,421
Equipment rentals and subcontractor	17,961	-	17,961	-	17,961	-	17,961
Write-down provision	(69,824)	(397,068)	-	-	466,892	-	(466,892)
METC refund	(45,310)	-	-	-	45,310	-	(45,310)
	396,015	(396,015)	-	-	-	-	-
<b>Crow re:</b>							
Acquisition	9,377	-	9,377	-	9,377	-	9,377
Assay and analysis	9,054	595	9,054	595	9,649	-	9,649
Camp and supplies	665	-	665	-	665	-	665
Drilling	119,645	-	119,645	-	119,645	-	119,645
Engineering and geological	70,228	-	70,228	-	70,228	-	70,228
Equipment rentals and subcontractor	6,904	-	6,904	-	6,904	-	6,904
METC refund	(54,774)	-	(54,774)	-	(54,774)	(519)	(55,293)
	161,099	595	161,099	595	161,694	(519)	161,175
<b>Tadpole:</b>							
Assay and analysis	210	-	210	-	210	-	210
Camp and supplies	-	-	-	-	-	-	-
Drilling	-	-	-	-	-	-	-
Write-down provision	(210)	-	-	-	210	-	(210)
	-	-	-	-	-	-	-
<b>Flap:</b>							
Acquisition	8,478	110	8,478	110	8,588	-	8,588
Assay and analysis	30,971	-	30,971	-	30,971	-	30,971
Drilling	34,383	-	34,383	-	34,383	-	34,383
Engineering and geological	62,095	0	62,095	-	62,095	-	62,095
METC refund	(4,454)	-	(4,454)	-	(4,454)	(30,252)	(34,706)
	131,473	110	131,473	110	131,583	(30,252)	101,331
<b>Empress:</b>							
Acquisition	4,632	92	4,632	92	4,724	(916)	3,808
Assay and analysis	10,451	-	10,451	-	10,451	-	10,451
Drilling	192,341	-	192,341	-	192,341	-	192,341
Engineering and geological	58,561	-	58,561	-	58,561	-	58,561
METC refund	(75,180)	-	(75,180)	-	(75,180)	(2,151)	(77,331)
	190,805	92	322,278	202	190,897	(3,067)	187,830
<b>Wigwam</b>							
Write-Down	-	-	-	-	-	(55,963)	-
Acquisition	-	-	42,000	658	42,658	-	42,658
Assay and analysis	-	-	-	1,429	1,429	280	1,709
Engineering and geological	-	-	-	11,596	11,596	-	11,596
	-	-	42,000	13,683	55,683	(55,683)	-

# GOLDREA RESOURCES CORP.

## Schedule of Exploration and Evaluation Assets Costs (unaudited), Continued

Year ended July 31, 2013, with comparative information for 2012

	July 31, 2011	Expenditures (recoveries or w rite- downs)	July 31, 2011	Expenditures (recoveries or w rite- downs)	July 31, 2012	Expenditures (recoveries or w rite- downs)	July 31, 2013
<b>USA - Arizona:</b>							
Gold Chain:							
Option payments received	-	-	\$ 0	\$ 0	(19,787)	\$	\$ (19,787)
Acquisition	50,208	1,690	54,351	-	54,351	-	54,351
Assay and analysis	390	21,187	21,577	-	21,577	-	21,577
Drilling	-	42,346	42,482	763	43,245	780	44,025
Engineering and geological	4,895	26,045	31,672	-	31,672	-	31,672
	55,493	91,268	150,082	763	131,058	780	131,838
Gold Rush:							
Option payments received	-	-	-	-	(19,787)	-	(19,787)
Acquisition	58,235	3,419	66,416	-	66,416	-	66,416
Assay and analysis	3,634	21,187	24,821	-	24,821	-	24,821
Drilling	0	36,874	37,010	763	37,773	780	38,553
Engineering and geological	32,085	28,411	61,228	-	61,228	-	61,228
	93,954	89,891	189,475	1,526	170,451	780	171,231

## Schedule of Mineral Property Costs (unaudited)

Year ended July 31, 2013, with comparative information for 2012

	July 31, 2011	Expenditures (recoveries or w rite- downs)	July 31, 2011	Expenditures (recoveries or w rite- downs)	July 31, 2012	Expenditures (recoveries or w rite- downs)	July 31, 2013
<b>China - Shandong Province:</b>							
Rushan Goldrea Gold (RGG):							
Acquisition	2,306,117		2,306,117	-	2,306,117	23,257	2,329,374
Mineral rights contributed (note 2(a))	702,702		702,702	-	702,702	-	702,702
Administration	664,047	18,412	664,047	18,412	682,459	217,250	899,709
Assay and analysis	116,952		116,952	-	116,952	(83)	116,869
Drilling	2,609,415	33,850	2,609,415	33,850	2,643,265	-	2,643,265
Engineering and geological	684,659		684,659	-	684,659	-	684,659
Shaft	1,134,889	1,712	1,134,889	1,712	1,136,601	-	1,136,601
Travel	98,078		98,078	-	98,078	-	98,078
Recovery of mineral property costs		(6,670,833)	-	-	(6,670,833)	-	(6,670,833)
Cash deposit received on RGG purchase		-			-	(500,000)	(500,000)
	8,316,859	(6,616,859)	8,316,859	53,974	1,700,000	(259,576)	1,440,424

<b>Total evaluation assets and Mineral property costs</b>	<b>\$ 9,345,699</b>	<b>(6,830,917)</b>	<b>9,313,267</b>	<b>70,854</b>	<b>\$ 2,541,367</b>	<b>\$ (347,537)</b>	<b>\$ 2,193,829</b>
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