CURLEW LAKE RESOURCES INC.

CONDENSED INTERIM FINANCIAL STATEMENTS

SIX MONTHS ENDED JULY 31, 2012

Q2

(Unaudited – Prepared by Management)

NOTICE TO READER

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 auditor.

The accompanying unaudited condensed interim financial statements have been prepared by and are the responsibility of management.

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

VANCOUVER, BC
September 28, 2012

CURLEW LAKE RESOURCES INC.
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited – Prepared by Management)

	Note	July 31, 2012	January 31, 2012
ASSETS			
Current assets			
Cash	3	$ 2,462	$ 19,301
HST receivable		6,958	43,898
Receivables		-	11,826
		9,420	75,025
Other assets			
Restricted cash	4	26,308	-
Mineral properties	6	6,937	6,014
Exploration and evaluation assets	6	365,395	931,951
		398,640	937,965
TOTAL ASSETS		$ 408,060	$ 1,012,990
LIABILITIES			
Accounts payable and accrued liabilities	5	$ 96,300	$ 107,043
SHAREHOLDERS' EQUITY			
Share capital	7	15,434,682	15,435,393
Contributed surplus	7	666,865	666,865
Deficit		(15,789,787)	(15,196,311)
		311,760	905,947
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		$ 408,060	$ 1,012,990

Continuance of operations (Note 1)
Subsequent event (Note 11)

On behalf of the Board:

"Robert Pincombe" Director

"Robert Kramer" Director

See accompanying notes to the condensed interim financial statements

CURLEW LAKE RESOURCES INC.
CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited – Prepared by Management)

	Six months ended		Three months ended	
	July 31, 2012	**July 31, 2011**	**July 31, 2012**	**July 31, 2011**
REVENUE				
Petroleum and natural gas sales, net	$ 20,646	$ 81,379	$ 17,277	$ 35,552
COST OF PRODUCTION				
Operating Expense	14,453	9,516	14,453	6,890
OPERATING INCOME	6,193	71,863	2,824	28,662
EXPENSES				
Bank charges	683	916	354	482
Management fees	-	15,000	-	7,500
Office and miscellaneous	26,996	3,692	22,341	1,102
Professional fees and consulting	11,216	11,457	11,216	7,457
Shareholder communications	1,305	-	1,305	-
Travel and promotion	-	1,869	-	-
Transfer agent and filing fees	17,752	12,217	12,552	8,620
Wages and benefits	-	13,274	-	6,637
	57,952	58,425	47,768	31,798
Write-down of exploration and evaluation assets	(571,717)	(185)	(571,717)	-
Gain on sale of property	30,000	-	-	-
NET INCOME (LOSS) AND COMPREHENSIVE INCOME (LOSS)	(593,476)	13,253	(616,661)	(3,136)
Basic and diluted income (loss) per share	$ (0.06)	$ 0.00	$ (0.06)	$ (0.00)
Weighted average number of common shares outstanding	9,946,953	9,946,953	9,946,953	9,946,953

See accompanying notes to the condensed interim financial statements

CURLEW LAKE RESOURCES INC.
CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited – Prepared by management)

	Share capital				
	Number of shares	Amount	Contributed Surplus	Deficit	Total
Balance at January 31, 2011	99,469,526	$ 15,435,393	$ 666,865	$ (15,091,459)	$ 1,010,799
Comprehensive income (loss) for the period	-	-	-	13,255	13,255
Balance July 31, 2011	99,469,526	$ 15,435,393	$ 666,865	(15,078,204)	$ 1,024,054
Comprehensive loss	-	-	-	(118,107)	(118,107)
Balance at January 31, 2012	99,469,526	$ 15,435,393	$ 666,865	$ (15,196,311)	$ 905,947
Share consolidation	(89,522,573)	-	-	-	-
Share issue costs	-	(711)	-		(711)
Comprehensive income (loss) for the period	-	-	-	(593,476)	(593,476)
Balance at July 31, 2012	9,946,953	$ 15,434,682	$ 66,865	$ (15,789,787)	$ 311,760

See accompanying notes to the condensed interim financial statements

CURLEW LAKE RESOURCES INC.
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited – Prepared by Management)

	Six months ended		Three months ended	
	July 31, 2012	**July 31, 2011**	**July 31, 2012**	**July 31, 2011**
CASH FLOWS FROM OPERATING ACTIVITIES				
Income (loss) for the period	$ (593,476)	$ 13,253	$ (616,661)	$ (3,136)
Write down of exploration and evaluation assets	571,717	-	571,717	-
Net change in non-cash working capital accounts:				
Decrease in accounts receivable	11,826	30,725	-	29,062
Decrease (increase) in HST receivable	36,940	7,494	(5,474)	5,250
Increase (decrease) in accounts payable	(10,743)	(258,898)	36,662	(1,795)
Net cash provided by (used in) operating activities	16,264	(207,426)	(13,756)	29,381
CASH FLOWS FROM FINANCING ACTIVITIES				
Share issue cost from consolidation of shares	(711)	-	(711)	-
Net cash used in financing activities	(711)	-	(711)	-
CASH FLOWS FROM INVESTING ACTIVITIES				
Expenditures on exploration and evaluation assets	(6,084)	(207,436)	(1,700)	(265,530)
Change in restricted cash	(26,308)	-	-	-
Net cash used in investing activities	(32,392)	(207,436)	(1,700)	(265,530)
Decrease in cash during period	(16,839)	(414,862)	(16,167)	(236,149)
CASH, BEGINNING OF PERIOD	19,301	519,356	18,629	340,643
CASH, END OF PERIOD	$ 2,462	$ 104,494	$ 2,462	$ 104,494

See accompanying notes to the condensed interim financial statements

1. NATURE AND CONTINUANCE OF OPERATIONS

Curlew Lake Resources Ltd. (the "Company") was incorporated January 15, 1987, under the Company Act of British Columbia. The Company is in the business of the acquisition, exploration and development of mineral properties and production from oil and gas properties in Western Canada. The Company's corporate office and principal place of business is Suite 303, 595 Howe Street, Vancouver, British Columbia, Canada.

These financial statements have been prepared on the basis of accounting principles applicable to a going concern, with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation. The Company's ability to continue as a going concern is dependent on obtaining continued financial support, completing public equity financing or generating profitable production in the future. These financial statements do not include any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

	July 31, 2012	Jan 31, 2012
Deficit	$ (15,789,787)	$ (15,196,311)
Working capital (deficiency)	$ (86,880)	$ (32,018)

These circumstances lend significant doubt as to the ability of the Company to meet its obligations as they come due, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION

The financial statements were authorized for issuance on September 28, 2012 by the directors of the Company.

Statement of compliance

These condensed interim financial statements are prepared in accordance with International Accounting Standard ("IAS") 34 *Interim Financial Reporting* under International Financial Reporting Standards ("IFRS") issued by the International Accounting Standards Board. These condensed interim financial statements do not contain all of the information required for full annual financial statements.

These financial statements have been prepared on an accrual basis and are based on historical costs, modified where applicable. The financial statements are presented in Canadian dollars unless otherwise noted.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Basis of preparation

Significant accounting judgments, estimates and assumptions

The preparation of the Company's 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 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.

Areas requiring a significant degree of estimation and judgment relate to the determination of the useful lives of property, plant and equipment, the recoverability of the carrying value of assets, fair value measurements for financial instruments and share-based payments, the recognition and valuation of provisions for liabilities, and the recoverability and measurement of deferred tax assets and liabilities. Actual results may differ from those estimates and judgments.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per common share is recognized on the use of the proceeds that could be obtained upon exercise of options, warrants and similar instruments. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the periods presented, this calculation proved to be anti-dilutive.

Basic loss per common share is calculated using the weighted average number of shares outstanding during the period.

Share-based payments

The Company has adopted a 10% rolling stock option plan whereby it can grant options to directors, officers, employees, and consultants of the Company. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the option reserve. The fair value of options is determined using a Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Financial instruments

The Company classifies its financial instruments in the following categories: at fair value through profit or loss, loans and receivables, held-to-maturity investments, available-for-sale and financial liabilities. The classification depends on the purpose for which the financial instruments were acquired. Management determines the classification of its financial instruments at initial recognition.

Financial assets are classified at fair value through profit or loss when they are either held for trading for the purpose of short-term profit taking, derivatives not held for hedging purposes, or when they are designated as such to avoid an accounting mismatch or to enable performance evaluation where a group of financial assets is managed by key management personnel on a fair value basis in accordance with a documented risk management or investment strategy. Such assets are subsequently measured at fair value with changes in carrying value being included in profit or loss.

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These 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 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 subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

Non-derivative financial liabilities (excluding financial guarantees) are subsequently measured at amortized cost.

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 an impairment has arisen.

The Company does not currently have any derivative financial assets and liabilities.

Income taxes

Current income tax:

Current income tax assets and liabilities for the current period are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted, at the reporting date, in the countries where the Company operates and generates taxable income.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:

Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

New accounting standards effective August 1, 2011

Amendments to IFRS 7 *Financial Instruments: Disclosures* - In October 2010, the IASB issued amendments to IFRS 7 that improve the disclosure requirements in relation to transferred financial assets. The amendments are effective for annual periods beginning on or after July 1, 2011, with early adoption permitted. This amendment did not have a significant impact on the condensed interim financial statements.

IAS 12 *Income taxes* - In December 2010, the IASB issued an amendment to IAS 12 that provides a practical solution to determining the recovery of investment properties as it relates to the accounting for deferred income taxes. This amendment is effective for annual periods beginning on or after July 1, 2011, with early adoption permitted. This amendment did not have a significant impact on the condensed interim financial statements.

New accounting standards issued but not yet effective

Certain new standards, interpretations and amendments to existing standards have been issued by the IASB or the International Financial Reporting Interpretations Committee ("IFRIC") that are mandatory for later periods. Some updates that are not applicable or are not consequential to the Company may have been excluded from the list below.

New accounting standard effective January 1, 2013

IFRS 9 *Financial Instruments* - IFRS 9 was issued in November 2009 and contained requirements for financial assets. This standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: Amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments and such instruments are either recognized at the fair value through profit or loss or at fair value through other comprehensive income. Where such equity instruments are measured at fair value through other comprehensive income, dividends are recognized in profit or loss to the extent not clearly representing a return of investment; however, others gains and losses (including impairments) associated with such instruments remain in accumulated other comprehensive income indefinitely.

2. SIGNIFICANT ACCOUNTING POLICIES AND BASIS OF PREPARATION (continued)

Requirements for financial liabilities were added in October 2010 and they largely carried forward existing requirements in IAS 39, *Financial Instruments – Recognition and Measurement*, except that fair value changes due to credit risk for liabilities designated at fair value through profit and loss would generally be recorded in other comprehensive income.

In May 2011, the IASB issued the following standards which have not yet been adopted by the Company:

IFRS 12 *Disclosure of Interests in Other Entities* - IFRS 12 establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces significant additional disclosure requirements that address the nature of, and risks associated with, an entity's interests in other entities.

IFRS 13 *Fair Value Measurement* - IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard clarifies that fair value is the price that would be received to sell an asset, or paid to transfer a liability in an orderly transaction between market participants, at the measurement date. It also establishes disclosures about fair value measurement. Under existing IFRS, guidance on measuring and disclosing fair value is dispersed among the specific standards requiring fair value measurements and in many cases does not reflect a clear measurement basis or consistent disclosures.

Amendments to other standards - In addition, there have been other amendments to existing standards, including IAS 27 *Separate Financial Statements* and IAS 28 *Investments in Associates and Joint Ventures*. IAS 27 addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. IAS 28 has been amended to include joint ventures in its scope and to address the changes in IFRS 10 to IFRS 13.

Each of the new standards, and the amendments to other standards, is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company has not yet begun the process of assessing the impact that the new and amended standards will have on its condensed interim financial statements or whether to early adopt any of the new requirements.

3. CASH

The components of cash

		July 31, 2012		**January 31, 2012**
Cash	$	2,462	$	19,301

4. RESTRICTED CASH

The Company has cash on deposit with the Energy Resources Conservation Board ("ERCB") under the ERCB's Liability Management programs to cover potential liabilities relating to its wells. The required security deposit with the ERCB is determined based on a monthly licensee management rating assessment. The security deposit represents the difference between deemed liabilities and deemed assets of the Company's interest in petroleum and natural gas properties in Alberta.

5. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

		July 31, 2012		**January 31, 2012**
Accounts payable	$	90,122	$	88,193
Amounts due to related parties (Note 10)		6,178		18,850
	$	96,300	$	107,043

6. EXPLORATION AND EVALUATION ASSETS

	January 31, 2011	January 31, 2012	July 31, 2012
Oil and Gas Properties	$ 665,278	$ 931,951	$ 365,395
Mineral properties	6,263	6,014	6,937
Total	$ 671,541	$ 937,965	$ 372,332

OIL AND GAS PROPERTIES

	Steen River Oil Project	Chin Coulee Oil Project	Leduc Oil Project	Fairydell Oil Project	Total
Balance, January 31, 2011	$ 41,430	$ 110,485	$ 68,944	$ 444,419	$ 665,278
Additions	1,747	2,003	837	360,234	364,821
Write-down/credit	(43,177)	-	-	(54,971)	(98,148)
Balance, January 31,2012	$ -	$ 112,488	$ 69,781	$ 749,682	$ 931,951
Additions	-	-	-	5,161	5,161
Write-down/credit	-	(112,488)	(69,781)	(389,448)	(571,717)
Balance, July 31, 2012	$ -	$ -	$ -	$ 365,395	$ 365,395

MINERAL PROPERTIES

	Typhoon Claims	Peace River Claims	Total
Balance, January 31, 2011	$ -	$ 6,263	$ 6,263
Additions	1,680	4,334	6,014
Write-down/credit	-	(6,263)	(6,263)
Balance, January 31, 2012	1,680	4,334	6,014
Additions	-	923	923
Balance, July 31, 2012	$ 1,680	$ 5,257	$ 6,937

6. EXPLORATION AND EVALUATION ASSETS (continued)

OIL AND GAS PROPERTIES

Fairydell Project, Alberta, Canada (unproven)
The Company has acquired freehold and Alberta Crown Petroleum and Natural Gas rights in the Fairydell-Bon Accord area of central Alberta. The Company has a 75% interest in the project subject to a 2.5% GORR in nine and three-quarter sections (6,240 acres). In the current period, the Company impaired the property by $389,448.

Chin Coulee Project, Alberta, Canada (unproven)
The Company has acquired 2 sections (1,280 acres) of Alberta Crown Petroleum and Natural Gas Leases in the Chin Coulee area of Southern Alberta. The Company has a 75% interest in the lands subject to a 2.5% GORR.). In the current period, the Company impaired the property by $112,488.

Leduc Project, Alberta, Canada (unproven)
The Company has acquired 2 sections (1,280 acres) of freehold Petroleum and Natural Gas rights in the prolific Leduc area of central Alberta. The Company has a 75% interest in the lands subject to a 2.5% GORR.). In the current period, the Company impaired the property by $69,781.

Steen River Project, Alberta, Canada

The Company signed a letter of intent for an option agreement with a third party pursuant to which it will enter into a two well drilling option agreement by May 27th, 2009, ending March 27th 2012, on 6 sections comprising the Steen River oil and gas prospect of Northern Alberta. The letter of intent calls for an initial payment of $25,000 which has been paid. Curlew Lake Resources Inc. will be responsible for 25% of the drilling costs & crown rentals. The initial 2 wells must be completed prior to February 27, 2012. In 2009 the Company acquired an additional 7.5% in the Steen project. The additional interest acquisition cost was $7,500. The Company did not renew the leases and consequently wrote-off the property as of January 31, 2012.

MINERAL PROPERTIES

Typhoon Claims, Clear Creek District, Yukon Territories

Curlew Lake holds a 100% interest in 117 mineral claims in the Clear Creek District of the Yukon. The 100% working interest on 98 claims is subject to a 4% Net Smelter Royalty, of which 1% may be purchased by the Company at any time in the future for the price of $600,000, in cash or shares and an additional 2% which may be purchased at any time for $1,000,000 in cash. The 100% working interest on the remaining 19 claims is subject to a 2% NSR Royalty, which may be purchased at any time by Curlew Lake for $1 million for each 1% to the Vendor, Xennex Development Corporation. The Company announced in 2006 an agreement with a private investor whereby Curlew Lake Resources Inc. received additional funds to drill the Yukon property. The private investor received a 2% NSR Royalty on all Yukon properties.

Peace River Claims, Clear Hills District, Alberta

Curlew Lake holds a 50% interest in Metallic & Industrial Minerals rights on 37 Townships, an area of approximately 850,000 acres (351,675 hectares), of land on the Peace River Arch geological formation in north western Alberta. The lands will be operated as a joint venture, with Curlew and 2 private partners, and Curlew will be the initial operator of the exploration project. The lands lie north and west of the Clear Hills area and cover a structure known as Halverson Ridge and surrounding areas.

7. SHARE CAPITAL

	Number of Shares	Share Capital	Contributed Surplus
Authorized-unlimited common shares, without par value			
Balance, February 1, 2010	71,769,526	$ 14,162,393	$ 433,912
Common shares issued	27,700,000	1,385,000	-
Allocation to warrants	-	(112,000)	112,000
Share based compensation	-	-	120,953
Balance, January 31, 2012	99,469,526	$ 15,435,393	$ 666,865
Share consolidation	(89,522,573)	-	-
Share issue costs	-	(711)	-
As at July 31, 2012	9,946,953	$ 15,434,682	$ 666,865

During the year ended January 31, 2012, the Company did not complete any share transactions.

The Company obtained shareholder approval at its Annual General Meeting held on June 22, 2012 to authorize the directors of the Company in their sole discretion to implement a consolidation of the Company's share capital on a ten old shares for one new share basis, subject to completion by May 18, 2013. The Company had 99,469,526 shares outstanding, which were reduced to 9,946,953 post-consolidated common shares. There was no name change with this consolidation. The consolidation received regulatory approval on July 6, 2012 and became effective on July 9, 2012.

8. WARRANTS AND OPTIONS

Warrants

Warrant transactions for the respective years and the number of warrants outstanding are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, January 31, 2011	37,160,000	$ 0.10
Warrants expired	(9,460,000)	(0.05)
Balance, January 31, 2012	27,700,000	$ 0.10
Warrants expired	(11,200,000)	(0.10)
Share consolidation	(14,850,000)	-
Balance, July 31, 2012	1,650,000	$ 1.00

The following warrants to acquire common shares were outstanding at July 31, 2012

Number of Shares	Exercise Price	Expiry Date
1,050,000*	$ 1.00	August 26, 2012*
600,000	$ 1.00	December 17, 2012

* Subsequent to the period end these warrants expired unexercised.

8. WARRANTS AND OPTIONS (continued)

Stock options

The Company follows the policies of the TSX Venture Exchange ("TSX-V") under which it is authorized to grant options to executive officers and directors, employees and consultants, enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. The exercise price of each option equals the market price of the Company's stock as calculated on the date of grant. The options can be granted for a maximum term of 10 years.

Stock option transactions for the respective years and the number of share options outstanding are summarized as follows:

	Number Of Shares	Weighted Average Exercise Price
Balance, January 31, 2011	6,700,000	$ 0.10
Options cancelled	(3,700,000)	0.10
Balance, January 31, 2012	3,000,000	$ 0.10
Share consolidation	(2,700,000)	-
Balance, July 31, 2012	300,000	$ 1.00

The Company uses the fair value method for determining stock-based compensation expense for all options granted during the fiscal periods. The fair value of options granted and vested was $Nil (2011 - $Nil).

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

Number of Shares	Exercise Price	Expiry Date
300,000	$ 1.00	May 27, 2013

9. FINANCIAL RISK MANAGEMENT

The Company is exposed to minimal financial instrument related risks. The Board of Directors approves and monitors the risk management processes, inclusive of documented investment policies, counterparty limits, and controlling and reporting structures. The type of risk exposure and the way in which such exposure is managed is provided as follows:

Credit risk

Credit risk is the risk that one party to a financial instrument will fail to discharge an obligation and cause the other party to incur a financial loss. The Company's primary exposure to credit risk is on its cash held in bank accounts. The Company's cash is deposited in bank accounts held with a major bank in Canada. As most of the Company's cash is held by a bank there is a concentration of credit risk. This risk is managed by using a major bank that is a high credit quality financial institution as determined by rating agencies.

9. FINANCIAL RISK MANAGEMENT (continued)

Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they become due. The Company's ability to continue as a going concern is dependent on management's ability to raise required funding through future equity issuances. The Company manages its liquidity risk by forecasting cash flows from operations and anticipating any investing and financing activities. Management and the Board of Directors are actively involved in the review, planning and approval of significant expenditures and commitments.

Interest rate risk

The Company is not currently exposed to significant interest rate risk.

Capital Management

The Company includes cash and cash equivalents and equity, comprising of issued common shares, contributed surplus and deficit, in the definition of capital.

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company’s management to sustain future development of the business.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company is dependent upon external financings to fund activities. In order to carry out planned exploration and pay for administrative costs, the Company will spend its existing working capital and raise additional funds as needed.

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable. There were no changes in the Company’s approach to capital management during the period ended July 31, 2012. The Company is not subject to externally-imposed capital requirements.

Financial assets included in the statement of financial position are as follows:

	July 31, 2012	January 31, 2012
Cash	$ 2,462	$ 19,301

Financial liabilities included in the statement of financial position are as follows:

	July 31, 2012	January 31, 2012
Accounts payable and accrued liabilities	$ 96,300	$ 107,043

9. FINANCIAL RISK MANAGEMENT (continued)

Classification of financial instruments

Fair value

The fair value of the Company's financial assets and liabilities approximates the carrying amount.

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. The three levels of the fair value hierarchy are:

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

The following is an analysis of the Company's financial assets measured at fair value as at July 31, 2012:

	As at July 31, 2012		
	Level 1	**Level 2**	**Level 3**
Cash	$ 2,462	$ -	$ -

10. RELATED PARTY TRANSACTIONS

Compensation to key management:

The Company entered into the following transactions with related parties:
a) Paid management fees of $nil (2011 - $15,000) to a company controlled by a director.
b) Paid wages and benefits of $nil (2011 - $13,274) to a company controlled by a former director.

Included in accounts payable:

	July 31, 2012	**January 31, 2012**
Company controlled by the CEO of the Company	$ 3,328	$ 10,000
Company controlled by the former CFO of the Company	2,850	8,850
	$ 6,178	$ 18,850

These transactions were in the normal course of operations and were measured at the exchange amount which represented the amount of consideration established and agreed to by the related parties.

11. SUBSEQUENT EVENT

Subsequent to July 31, 2012, the Company negotiated a private placement for gross proceeds of up to $500,000, subject to acceptance by the TSX Venture Exchange. These funds will be raised by the Company issuing 10,000,000 Units at a price of $0.05 per Unit, each Unit consisting of one common share and one share purchase warrant, each warrant entitling the holder thereof to purchase one additional common share, exercisable for a period of two (2) years from the date of issuance at a price of $0.10 per share. Proceeds will be used for general working capital.