Consolidated Financial Statements of

BIRD RIVER RESOURCES INC.

(formerly Bird River Mines Inc.)

Years ended July 31, 2011 and 2010

INDEPENDENT AUDITORS' REPORT

To the Shareholders of
Bird River Resources Inc.

Report on the Financial Statements

We have audited the accompanying financial statements of Bird River Resources Inc., which comprise the balance sheets as at July 31, 2011 and 2010 and the statements of operations and retained earnings and cash flows for the years then ended, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with Canadian generally accepted accounting principles, and for such internal control as management determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditor's Responsibility

Our responsibility is to express an opinion on these 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the 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 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, these financial statements present fairly, in all material respects, the financial position of Bird River Resources Inc. as at July 31, 2011 and July 31, 2010, and its financial performance and its cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of Matter

We draw attention to Note 1 (a) of these financial statements which describes the uncertainty related to Bird River Resources Inc.'s ability to operate as a going concern. Our opinion is not qualified in respect of this matter.

Magnus & Buffie

MAGNUS & BUFFIE
CHARTERED ACCOUNTANTS LLP

October 25, 2011
Winnipeg, Canada

BIRD RIVER RESOURCES INC.

(formerly Bird River Mines Inc.)

Consolidated Balance Sheets

July 31, 2011 and 2010

Expressed in Canadian dollars

	2011	2010
Assets		
Current assets:		
Cash and cash equivalents	$ 574,335	$ 792,172
Accounts receivable	5,906	8,068
Inventory	16,209	13,799
Income taxes recoverable	32,800	36,800
Note receivable	25,276	-
Total current assets	654,526	850,839
Petroleum and natural gas properties (Note 3)	263,159	67,671
Machinery and equipment (Note 4)	6,881	9,000
Mineral exploration properties (Note 5)	273	273
	$ 924,839	$ 927,783
Liabilities and Shareholders' Equity		
Current liability:		
Accounts payable and accrued liabilities	$ 47,277	$ 40,923
Shareholders' equity:		
Capital stock (Note 7)	998,457	927,687
Contributed surplus (Note 7 (e))	76,895	54,155
(Deficit)	(197,790)	(94,982)
	877,562	886,860
Basis of presentation (Note 1(a))		
	$ 924,839	$ 927,783

See accompanying notes to consolidated financial statements, including Basis of presentation.

APPROVED ON BEHALF OF THE BOARD:

Director _(signed) "Nelson Shodine" President

Director _(signed) "Jon Bridgman" CFO

BIRD RIVER RESOURCES INC.

(formerly Bird River Mines Inc.)

Consolidated Statements of Operations and Retained Earnings

Years ended July 31, 2011 and 2010

Expressed in Canadian dollars

	2011	2010
Revenue	$ 29,916	$ 45,117
Cost of goods sold	19,458	38,391
Gross profit	10,458	6,726
Expenses:		
Amortization	2,119	2,820
Automotive	8,266	10,463
Directors' fees	15,000	10,000
Management fees	45,300	43,200
Office	4,234	7,028
Professional fees	23,071	18,673
Rent	9,600	9,600
Repairs and maintenance	2,800	1,343
Stock-based compensation	22,740	6,695
Stock transfer and filing fees	17,205	20,423
Telephone	5,209	4,653
Travel and entertainment	1,178	1,072
	156,722	135,970
(Loss) before the following	(146,264)	(129,244)
Interest income	10,656	8,656
Loss on settlement of advance payable	-	(1,000)
(Loss) before income taxes	(135,608)	(121,588)
Current income tax recovery	32,800	36,800
Net (loss) and comprehensive (loss) for the year	(102,808)	(84,788)
(Deficit), beginning of year	(94,982)	(10,194)
(Deficit), end of year	$ (197,790)	$ (94,982)
Basic and diluted comprehensive (loss) per share (Note 7(d))	$ (0.01)	$ (0.01)

See accompanying notes to consolidated financial statements, including Basis of presentation.

BIRD RIVER RESOURCES INC.

(formerly Bird River Mines Inc.)

Consolidated Statements of Cash Flows

Years ended July 31, 2011 and 2010

Expressed in Canadian dollars

	2011	2010
Cash flows from (used in)		
Operating activities:		
Net (loss) for the year	$ (102,808)	$ (84,788)
Adjustments for:		
Amortization	2,119	2,820
Stock-based compensation	22,740	6,695
Loss on settlement of advance payable	-	1,000
	(77,949)	(74,273)
Changes in the following:		
Accounts receivable	2,162	(5,412)
Inventory	(2,410)	(2,288)
Income tax recoverable/payable	4,000	(265,000)
Accounts payable and accrued liabilities	6,354	5,529
	(67,843)	(341,444)
Financing activity:		
Proceeds from issuance of common shares, net of share issue costs	70,770	-
Investing activities:		
Investment in petroleum and natural gas properties	(195,488)	(20,000)
Short term investments	(25,276)	-
	(220,764)	(20,000)
Change in cash	(217,837)	(361,444)
Cash and cash equivalents, beginning of year	792,172	1,153,616
Cash and cash equivalents, end of year	$ 574,335	$ 792,172

Supplementary information:

During 2011 the company did not pay any interest (2010 - $nil) or income taxes (2010 - $227,735).

See accompanying notes to consolidated financial statements, including Basis of presentation.

BIRD RIVER RESOURCES INC.

(formerly Bird River Mines Inc.)

Consolidated Statements of Changes in Shareholders' Equity

Years ended July 31, 2011 and 2010

Expressed in Canadian dollars

	2011	2010
Capital stock		
Balance, beginning of year	$ 927,687	$ 926,687
Shares issued for settlement of debt	-	1,000
Shares issued under private placement, net of share issue costs	70,770	-
Balance, end of year	$ 998,457	$ 927,687
Contributed surplus		
Balance, beginning of year	$ 54,155	$ 47,460
Fair value of stock options vested	22,740	6,695
Balance, end of year	$ 76,895	$ 54,155
(Deficit)		
Balance, beginning of year	$ (94,982)	$ (10,194)
Net (loss) and comprehensive (loss) for the year	(102,808)	(84,788)
Balance, end of year	$ (197,790)	$ (94,982)
Total shareholders' equity, end of period	$ 877,562	$ 886,860

See accompanying notes to consolidated financial statements including Basis of presentation.

General

Bird River Resources Inc. is incorporated under the laws of Manitoba. The principal business activities include the acquisition and exploration of mining properties. The company also engages in secondary activities, from time to time, involving the purchase or acquisition of certain industrial minerals - typically diatomaceous earth and bentonite - for distribution and re-sale or for use in an abandoned water well sealing operation.

As the company has no revenue producing mines, it is considered a development stage company.

1. Significant accounting policies

(a) Basis of presentation

These financial statements have been prepared on a going concern basis in accordance with Canadian generally accepted accounting principles. The going concern basis of presentation assumes that the company will continue in operation for the foreseeable future and be able to realize its assets and discharge its liabilities and commitments in the normal course of business.

The company has not yet determined whether its mineral properties contain reserves that are economically recoverable, and accordingly, the success of any further exploration or development prospects cannot be assured. If the company's exploration and development programs are successful, additional funds may be required, and the company may not have sufficient funds to conduct the mineral exploration required. The primary source of future funds available to the company is through the sale of additional equity capital, which may dilute the interests of existing shareholders.

(b) Basis of consolidation

These consolidated financial statements include the accounts of the company and its wholly-owned subsidiary 2411181 Manitoba Ltd. All significant inter-company transactions have been eliminated.

Variable interest entities ("VIE's"), which include, but are not limited to, special purpose entities, trust, partnerships, and other legal structures are entities in which equity investors do not have the characteristics of a "controlling financial interest" or there is not sufficient equity at risk for the entity to finance its activities without additional subordinated financial support. VIE's are subject to consolidation by the primary beneficiary who will absorb the majority of the entities' expected losses and/or expected residual returns. The company does not have any entities that qualify for treatment under this guidance.

(c) Inventory

Inventory is valued at the lower of cost and net realizable value. The costs of inventory is assigned using the first-in, first-out costing formula. In the current year, no inventory has been valued at net realizable value.

1. Significant accounting policies (continued)

(d) Mineral exploration properties

All costs related to the acquisition, exploration and development of mineral properties are capitalized. Proceeds from the sale of interests in mineral exploration properties that are not yet in the production stage are credited to the cost of the property. Amounts reflected for mineral exploration properties not in commercial production represent costs incurred to date, net of write-downs and proceeds from the sale of interests and are not intended to reflect present or future values. The recoverability of the costs is dependent upon the discovery of economically recoverable ore reserves, confirmation of the company's interests in the underlying mineral claims, the ability to obtain necessary financing to complete development, the receipt of necessary permitting and the future profitable production from the properties or realization of sufficient proceeds from the disposition of the properties.

The costs relating to identifiable groups of property will be written-down to net realizable value if exploration activities prove unsuccessful or if the groups of property are abandoned.

(e) Impairment of long-lived assets

The company regularly reviews whether there are any indicators of impairment of its long-lived assets, primarily being its mineral exploration properties which does not include petroleum and natural gas properties. If such indicators are present, the company assesses the recoverability of the long-lived assets or group of assets by determining whether the carrying value of such assets can be recovered through undiscounted future cash flows. If the sum of undiscounted future cash flows is less than the carrying amount or if long- lived assets are abandoned, the excess of the carrying amount over the estimated fair value, based on discounted future cash flows, is recorded as a charge to net income. The current review concluded that no write-down was necessary.

(f) Asset retirement obligations

The company measures the expected costs required to retire its mining interests at fair value which approximates the cost a third party would incur in performing the tasks necessary to abandon the field and restore the site. The fair value is recognized in the financial statements at the present value of expected future cash outflows to satisfy the obligation.

The asset retirement costs, if any, are subsequently allocated in a rational and systematic method over the underlying asset's useful life, and are included in amortization expense. The initial fair value of the present value liability is accreted, by charges to operations, to its estimated nominal future value. The liability is also adjusted due to revisions in either the timing or amount of the estimated costs.

As at July 31, 2011 and July 31, 2010 the company has not incurred or committed to any asset retirement obligations related to its exploration properties.

(g) Machinery and equipment

Machinery and equipment are recorded at cost. Amortization is provided using the following annual rates and method:

	Rate	Method
Mining equipment	20%	Declining balance
Vehicles	30%	Declining balance

1. Significant accounting policies (continued)

(h) Petroleum and natural gas properties

Capitalized costs

The company follows the full-cost method of accounting for oil and gas activities whereby all costs associated with the acquisition of, the exploration for and the development of oil and gas reserves relating to the exploration for and development of oil and natural gas reserves, whether productive or unproductive, are capitalized in cost centres. Such costs include land and lease acquisitions, geological and geophysical expenditures, drilling of productive and non-productive wells, production and gathering equipment and facilities, carrying costs directly related to unproven properties, and corporate costs directly related to acquisition.

The costs (including exploratory dry holes) related to wells from which there has been no meaningful commercial production are not subject to depletion until commercial production commences.

Proceeds from disposal of properties are normally applied as a reduction of the costs of the remaining assets unless the disposal would alter the rate of depletion by more than 20%, in which case a gain or loss on disposal is recorded.

Depletion and depreciation

Capitalized costs are depleted and depreciated using the unit-of-production method based on gross proven reserves of petroleum and natural gas as determined by independent engineers. For purposes of this calculation, oil and natural gas reserves are converted to a common unit of measurement. In determining its depletion base, the company includes estimated future costs to be incurred in developing proven reserves and excludes estimated salvage values and the cost of unproven properties. Costs of unproven properties are initially excluded from depletion calculations. These unproven properties are assessed periodically to ascertain whether impairment has occurred. When impairment has occurred, the property is written down to its net realizable value and the impairment is transferred to the costs being depleted. If the properties are located in a cost centre where there is no reserve base, the impairment is charged directly to earnings.

Impairment test (ceiling test)

Impairment is determined when the carrying amount of a cost centre exceeds the sum of the undiscounted cash flows expected to result from the company's proven reserves (determined pursuant to evaluation by independent engineers as dictated by National Instrument 51-101), based on future pricing. If the carrying value is impaired, the amount of impairment is measured by comparing the carrying amount to the sum of the following:

(i) the estimated net present value of future cash flows from proven plus probable reserves, and

(ii) the costs of unproven properties that have been subject to a separate impairment test.

This calculation incorporates risks and uncertainties in the expected future cash flows that are discounted using a risk-free rate. Any excess carrying value above the net present value of the future cash flows would be recorded as a permanent impairment and the property is written down to its fair value.

The company applies this test at each balance sheet date. As at year end, meaningful production has not yet commenced.

1. Significant accounting policies (continued)

(i) Joint interests

Substantially all of the exploration, development and production activities of the company are conducted jointly with others and, accordingly, the financial statements reflect only the company's proportionate interest in such activities (Note 1(o)).

(j) Revenue recognition

Revenue is recognized when goods are shipped.

Interest income is recognized as earned.

(k) Future income taxes

The company uses the asset and liability method of accounting for income taxes. Under this method, future income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Future income tax assets and liabilities are measured using enacted or substantially enacted tax rates expected to be recovered or settled. The effect on future tax assets and liabilities of a change in tax rates is recognized in earnings in the period that includes the date of enactment or substantive enactment.

(l) Stock-based payments to non-employees

Stock-based payments granted to non-employees are measured at the fair value of the goods or services received. In the event the company cannot reasonably estimate the fair value of goods or services received, the transaction is recorded at the estimated value of the underlying equity instrument.

(m) Stock-based compensation

The company adopted the fair value-based approach to account for stock-based compensation applying to options granted after August 1, 2003. Estimated compensation expense is recognized for these stock options over their vesting period based on their estimated fair values on the date of grant as determined by using the Black-Scholes option-pricing model.

The fair value of the options issued, if any, are credited to contributed surplus in the period they vest. When these options are exercised, the consideration paid by employees and the fair value of the options previously credited to contributed surplus are credited to share capital.

(n) Government assistance

The company periodically applies for financial assistance under available government incentive programs. All government assistance received is reflected as a reduction of the related asset value.

The company did not receive any government assistance in fiscal 2011 or 2010.

(o) Joint ventures

A portion of the company's exploration activities may be conducted with others wherein the company enters into agreements that provide for specified percentage interests in mineral exploration properties. The company accounts for its investments in joint ventures using the proportionate consolidation method.

1. Significant accounting policies (continued)

(p) Financial instruments - recognition and measurement

Transaction costs are expensed as incurred for financial instruments designated as Held-for-trading. The effective interest rate method of amortization is used for any transaction costs for financial instruments measured at amortized cost.

Loans and Receivables, Held-to-maturity Investments and Other financial liabilities are initially measured at fair value and subsequently measured at amortized cost. Gains or losses resulting from revaluation, impairment write-downs and foreign exchange translation adjustments are recognized in net earnings for the period. Loans and Receivables financial instruments include the note receivable. The company does not have any financial instruments designated as Held-to-maturity Investments or Other financial liabilities.

Available-for-sale Financial Assets are initially and subsequently recorded at fair value, except for equity instruments that do not have a quoted market price in an active market as they are recorded at cost. Gains and losses resulting from revaluation are included in Other Comprehensive Income and are transferred to net earnings when the asset is derecognized. Impairment write-downs are included in net earnings for the period. The company does not have any financial instruments designated as Available-for-sale Financial Assets.

Held-for-trading financial instruments include cash and cash equivalents, accounts receivable and accounts payable and accrued liabilities and are initially and subsequently recorded at fair value. Gains or losses on revaluation are included in net earnings for the period.

(q) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of certain assets and liabilities at the date of the financial statements and the reported amounts of certain revenue and expenses during the year. Actual results could differ from these estimates.

(r) 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.

2. Future accounting changes

International Financial Reporting Standards ("IFRS")

In January 2006, the CICA's Accounting Standards Board ("AcSB") formally adopted the strategy of replacing Canadian generally accepted accounting principles with IFRS for Canadian enterprises with public accountability. The current conversion timetable calls for financial reporting under IFRS for accounting periods commencing on or after January 1, 2011. The use of IFRS will be required in 2011 for publicly accountable profit-oriented enterprises.

The company is currently assessing the impact of these new accounting standards on its financial statements.

Expressed in Canadian dollars

3. Petroleum and natural gas properties

The company has invested in the following petroleum and natural gas properties:

	2011	2010
Interest in joint venture (a)	$ 176,671	$ 67,671
Lease holdings (b)	86,488	-
	$ 263,159	$ 67,671

(a) The company has entered into a jointly controlled operation with Antler River Resources Ltd. The joint operation has no liabilities or revenues and the assets are limited to five oil wells (LSD 6-13-7-29, LSD HZ 2-29-2-28, LSD 14-15-8-28, 13-15-8-28, HZ 11-26-1-28). Expenditures are limited to costs of surface access, building location, drilling, completing, equipping and operating or abandoning the oil wells. The related expenditures are deferred in the accounts of the company. The cash flows of the joint operations are limited to the expenditures as outlined above and are equal to the amounts of these expenditures. The company has earned an interest equal to 80% of their contribution to the costs of surface access, building location, drilling, completing, equipping and operating or abandoning the oil wells, which represents, approximately, a 4% interest in the joint venture operations.

(b) The company has invested in five lease holdings as follows:

(i) Southwest and Northwest 23-1-28, 25% owned with a three-year lease term.
(ii) Northeast quarter 14-4-22, 100% owned with a five-year lease term.
(iii) Northeast quarter 17-1-27, 25% owned with a three-year lease term.
(iv) Northeast quarter 23-1-28, 25% owned with a three-year lease term.
(v) Northeast quarter 30-1-27, 25% owned with a three-year lease term.

As at July 31, 2011 meaningful production in the petroleum and natural gas properties had not yet commenced (Note 1(h)).

4. Machinery and equipment

2011	Cost	Accumulated amortization	Net book value
Mining equipment	$ 52,333	$ 47,688	$ 4,645
Vehicles	11,342	9,106	2,236
	$ 63,675	$ 56,794	$ 6,881

2010	Cost	Accumulated amortization	Net book value
Mining equipment	$ 52,333	$ 46,527	$ 5,806
Vehicles	11,342	8,148	3,194
	$ 63,675	$ 54,675	$ 9,000

Expressed in Canadian dollars

5. Mineral exploration properties

The company holds one Quarry Lease, QL - 1530, located 85 kilometers southwest of Winnipeg near Miami, Manitoba. The 8 hectare lease hosts a narrow bed of bentonite.

The company held an exploration property known as the Ore Fault property located on the Bird River Greenstone Belt, 125 kilometers northeast of Winnipeg, Manitoba. On August 19, 2008 Marathon PGM acquired the balance of the Ore Fault property consisting of 19 claims which covers 446 hectares. Under the joint venture agreement Marathon had an option to earn 100% of the Ore Fault property once their interest reached 70%. Marathon exercised its option to require the company to sell the remaining 30% interest in the property for a purchase price of $1,450,000. Bird River Resources Inc. retains a 1% net smelter return ("NSR") royalty on the Ore Fault Property.

6. Income taxes

(a) Canadian development and exploration expenditures:

As at July 31, 2011, the company had $nil (2010 - $nil) of unused Canadian exploration and development expenses available to offset future taxable income of the company.

(b) Losses:

As at July 31, 2011 the company had non-capital tax losses of $nil (2010 - $nil) available for carry forward to reduce future years' taxable income.

(c) Income tax recovery differs from the amount that would be computed by applying the federal and provincial statutory income tax rates of 29% (2010 - 32%). The reasons for the differences are as follows:

	2011	2010
Income tax recovery (expense) computed at statutory rates	$ 39,400	$ 39,000
Permanent differences	(6,600)	(2,200)
	32,800	36,800
Valuation allowance	-	-
	$ 32,800	$ 36,800

The components of the company's net future income tax asset at July 31, 2011 and 2010 are as follows:

	2011	2010
Future income tax assets		
Property and equipment	$ 1,000	$ 1,000
Valuation allowance	(1,000)	(1,000)
	$ -	$ -

In assessing the realizability of future tax assets, management considers whether it is more likely than not that some portion or all of the future tax assets will be realized. The ultimate realization of future tax assets is dependent upon the generation of future taxable income during the periods in which those temporary differences become deductible. Management considers the scheduled reversal of future tax liabilities, projected future taxable income and tax planning strategies in making this assessment.

Expressed in Canadian dollars

7. Capital stock

(a) Authorized

Authorized share capital consists of an unlimited number of common voting shares.

(b) Changes in issued common shares are summarized below:

Year ended July 31, 2011	Number of common shares		Amount
Balance, July 31, 2010	9,470,558	$	927,687
Shares issued under private placement (i)	999,667		70,770
Balance, July 31, 2011	10,470,225	$	998,457

The weighted average number of common shares outstanding during fiscal 2011 was 10,015,582.

Year ended July 31, 2010	Number of common shares		Amount
Balance, July 31, 2009	9,460,558	$	926,687
Shares issued for settlement of debt (ii)	10,000		1,000
Balance, July 31, 2010	9,470,558	$	927,687

The weighted average number of common shares outstanding during fiscal 2010 was 9,470,065.

(i) On January 14, 2011 999,667 common shares were issued through a private placement at a price of $0.075 per common share. The amount recorded to share capital in the amount of $70,770 represents gross proceeds of $74,975 less share issue costs of $4,205.

(ii) On August 19, 2009 the company issued 10,000 common shares at a price of $0.10 per share as settlement of an old outstanding debt with an individual in the amount of $1,000.

(c) Options:

(i) The following table summarizes the 900,000 outstanding options as at July 31, 2011:

	Number outstanding	Exercise price	Expiry date
Directors' options	900,000	$0.10	June 10, 2015

(ii) A summary of the stock option activity for the years ended July 31, 2011 and 2010 are as follows:

	2011	2010
Outstanding at beginning of year	900,000	800,000
Granted	-	900,000
Expired	-	(800,000)
Outstanding at end of year	900,000	900,000

Expressed in Canadian dollars

7. Capital stock (continued)

(d) Income (loss) per share:

Income (loss) per share is computed using the weighted average number of common shares outstanding during the year (Note 7(b)). Diluted income (loss) per share is calculated using the treasury stock method which assumes all common share equivalents, such as options and warrants had been exercised at the beginning of the reporting period of issue and that the funds obtained there from were used to purchase common shares of the company at the estimated average trading price of the common shares during the year. In fiscal 2011 and 2010, the dilution created by the options has not been reflected in the per share amounts as the effect would be anti-dilutive.

(e) Contributed surplus:

A summary of the contributed surplus activity for the year ended July 31, 2011 and 2010 is as follows:

	2011	2010
Balance beginning of year	$ 54,155	$ 47,460
Stock-based compensation	22,740	6,695
Balance end of year	$ 76,895	$ 54,155

During the year ended July 31, 2011 $22,740 of stock options issued on June 18, 2010 vested and are included in contributed surplus and stock based compensation for the year.

8. Financial instruments

(a) Risk management and hedging activities

In the normal course of operations the company is exposed to various financial risks. Management's close involvement in the operations allows for the identification of risks and variances from expectations. The company does not meaningfully participate in the use of financial instruments to control these risks. The company has no designated hedging transactions. The financial risks and management's risk management objectives and policies are as follows:

(i) Currency risk
The company does not hold any assets or liabilities denominated in a foreign currency.

(ii) Market risk
The company is not exposed to any meaningful market risk.

(iii) Credit risk
The company is exposed to credit risk on accounts receivable. Management monitors credit exposure on a specific creditor basis and does not have significant concentrations of credit risk. Cash and cash equivalents consist of cash, short term deposits, and money market funds held with a chartered Canadian bank from which management believes the risk of loss to be minimal.

(iv) Liquidity risk
Management monitors the company's liquidity and is of the opinion that it is unlikely that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments.

(v) Interest rate risk
The company is not exposed to any meaningful interest rate risk.

Expressed in Canadian dollars

8. Financial instruments (continued)

(b) Sensitivity analysis

The company has cash and cash equivalents subject to interest rate risk of approximately $574,000. A 1% change in the primary interest rate would affect the reported net income, on an annualized basis, by $5,740.

(c) Fair values

The fair values of the company's financial instruments approximate their carrying value due to the relatively short term period to maturity. Fair value amounts represent point-in-time estimates and may not reflect fair value in the future. The measurements are subjective in nature, involve uncertainties and are a matter of judgment. The methods and assumptions used to develop fair value measurements, for those financial instruments where fair value is recognized in the balance sheet, have been prioritized into three levels as per the fair value hierarchy in Canadian generally accepted accounting principles.

Level one includes quoted prices (unadjusted) in active markets for identical assets or liabilities. Level two includes inputs that are observable other than quoted prices included in level one. Level three includes inputs that are not based on observable market data.

	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 574,335	$ -	$ -

9. Related party transactions

During the year, the company paid management fees in the amount of $30,000 (2010 - $30,000) to a director and officer of the company, $15,300 (2010 - $14,400) to another director and officer of the company and $15,000 (2010 - $10,000) in directors' fees. The company also paid rent in the amount of $9,600 (2010 - $9,600) to a director and officer of the company during the year. These amounts are recorded at the exchange amount, which is the amount agreed upon by both parties.

As at July 31, 2011, included in accounts payable are amounts owing to directors and officers of the company in the amount of $23,800 (2010 - $18,700).

10. Capital management

The company considers its capital structure to consist of share capital, stock options and warrants. When managing capital, the company's objective is to ensure the entity continues as a going concern as well as to maintain optimal returns to shareholders and benefits for other stakeholders. Management adjusts the capital structure as necessary 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. As at July 31, 2011 the company had managed capital (being total Shareholders' equity) of $877,562 (July 31, 2010 - $886,860).

The properties in which the company currently has an interest are in the exploration stage. As such, the company is dependent on external financing to fund its activities. In order to carry out the planned exploration and pay for administrative costs, the company will spend its existing working capital and raise additional amounts as needed. The company will continue to assess new properties and seek to acquire an interest in additional properties it if feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so.

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 year ended July 31, 2011. The company is not subject to externally imposed capital requirements.