Consolidated Financial Statements of

BIRD RIVER RESOURCES INC.
(An Exploration Company)

Years ended July 31, 2012 and 2011

Expressed in Canadian dollars

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

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

Emphasis of Matter

We draw attention to Note 2(b) 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

November 27, 2012 — Magnus Chartered Accountants LLP
Winnipeg, Canada

BIRD RIVER RESOURCES INC.

Consolidated Statements of Financial Position

As at July 31, 2012, July 31, 2011 and August 1, 2010

(Expressed in Canadian dollars)

	July 31 2012	July 31 2011 (Note 17)	August 1 2010 (Note 17)
Assets			
Current assets:			
Cash and cash equivalents (Note 4)	$ 316,192	$ 574,335	$ 792,172
Trade receivables	25,437	5,906	8,068
Goods and services tax recoverable	867	227	733
Income tax recoverable	35,000	32,800	36,800
Inventory	12,912	16,209	13,799
Note receivable (Note 5)	35,374	25,276	-
Total current assets	425,782	654,753	851,572
Non-current assets:			
Property and equipment (Note 6)	276,421	6,881	9,000
Exploration and evaluation assets (Note 7)	200,415	263,432	67,944
Total non-current assets	476,836	270,313	76,944
Total assets	$ 902,618	$ 925,066	$ 928,516
Liabilities and Equity			
Liabilities:			
Current liabilities:			
Trade payables	$ 9,000	$ 10,376	$ 16,269
Other payables (Note 8)	39,455	37,128	25,387
Total current liabilities	48,455	47,504	41,656
Non-current liability:			
Decommissioning obligations (Note 9)	6,269	-	-
Total liabilities	54,724	47,504	41,656
Equity:			
Share capital (Note 11)	1,012,247	998,457	927,687
Share-based payments reserve	84,717	76,895	54,155
(Deficit)	(249,070)	(197,790)	(94,982)
Total equity	847,894	877,562	886,860
Going concern of operations (Note 2(b))			
Total liabilities and equity	$ 902,618	$ 925,066	$ 928,516

See accompanying notes to consolidated financial statements.

Approved on behalf of the Board on November 27, 2012:

Director (signed) "Nelson Shodine"

Director (signed) "Jon Bridgman"

BIRD RIVER RESOURCES INC.

Consolidated Statements of Loss and Comprehensive Loss

Years ended July 31, 2012 and 2011

(Expressed in Canadian dollars)

	2012	2011
Revenue:		
Petroleum and natural gas revenue	$ 141,646	$ -
Industrial mineral sales	48,879	29,916
	190,525	29,916
Expenses:		
Depletion	13,850	-
Depreciation	1,600	2,119
General and administrative (Note 12)	133,376	131,863
Impairment (Note 7 (iv))	39,825	-
Production and operating - petroleum and natural gas	50,908	-
Production and operating - industrial minerals	36,854	19,458
Share-based payments (Note 13)	11,612	22,740
	288,025	176,180
(Loss) from operations	(97,500)	(146,264)
Interest income	7,405	10,656
(Loss) before income taxes	(90,095)	(135,608)
Income tax recovery	38,815	32,800
Net (loss) and comprehensive (loss) for the year	$ (51,280)	$ (102,808)
(Deficit), beginning of year	(197,790)	(94,982)
(Deficit), end of year	$ (249,070)	$ (197,790)
Basic and diluted loss per share (Note 11(c))	$ (0.01)	$ (0.01)

See accompanying notes to consolidated financial statements.

BIRD RIVER RESOURCES INC.

Consolidated Statements of Changes in Equity

Years ended July 31, 2012 and 2011

(Expressed in Canadian dollars)

	2012	2011
Share capital		
Balance, beginning of period	$ 998,457	$ 927,687
Stock options exercised	13,790	-
Shares issued under private placement	-	70,770
Balance, end of period	$ 1,012,247	$ 998,457
Share-based payments reserve		
Balance, beginning of period	$ 76,895	$ 54,155
Fair value of stock options exercised	(3,790)	-
Share-based payments	11,612	22,740
Balance, end of period	$ 84,717	$ 76,895
(Deficit)		
Balance, beginning of period	$ (197,790)	$ (94,982)
Comprehensive (loss) for the period	(51,280)	(102,808)
Balance, end of period	$ (249,070)	$ (197,790)
Total equity, end of period	$ 847,894	$ 877,562

See accompanying notes to consolidated financial statements.

BIRD RIVER RESOURCES INC.

Consolidated Statements of Cash Flows

Years ended July 31, 2012 and 2011

(Expressed in Canadian dollars)

	2012	2011
Operating activities:		
Net loss for the period	$ (51,280)	$ (102,808)
Adjustments for:		
Depletion and depreciation	15,450	2,119
Interest accrued to principal on note receivable	(98)	(276)
Impairment	39,825	-
Stock based payments	11,612	22,740
	15,509	(78,225)
Changes in the following:		
Trade receivables	(19,531)	2,162
Inventory	3,297	(2,410)
Goods and services tax recoverable	(640)	506
Income taxes recoverable	(2,200)	4,000
Trade payables	(1,376)	(5,894)
Other payables	2,327	11,742
	(2,614)	(68,119)
Investing activities:		
Proceeds on note receivable	25,000	
Investment in note receivable	(35,000)	(25,000)
Investment in exploration and evaluation assets	(255,529)	(195,488)
	(265,529)	(220,488)
Financing activity:		
Proceeds from issuance of common shares, net of share issue costs	10,000	70,770
Change in cash	(258,143)	(217,837)
Cash and cash equivalents, beginning of period	574,335	792,172
Cash and cash equivalents, end of period	$ 316,192	$ 574,335

Supplementary information:

During 2012 the company did not pay any interest (2011 - $nil) or income taxes (2011 - $nil).

See accompanying notes to consolidated financial statements.

Nature of operations

Bird River Resources Inc. is a publicly listed company incorporated under the laws of Manitoba on March 7, 1958. The mailing and office address of its executive office is: 1059 Selkirk Avenue, Winnipeg MB, R2X 0C2.

The principal business activities include the acquisition and exploration of resource properties with the company's primary focus on petroleum and natural gas 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. Its shares are listed on the Canadian National Stock Exchange.

1. 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").

These are the company's first annual financial statements prepared in accordance with IFRS. Previously, the company prepared its annual financial statements in accordance with Canadian generally accepted accounting principles ("GAAP").

Reconciliation's between the company's previously reported statement of financial position, statement of loss and comprehensive loss and cash flows under GAAP and those reported under IFRS are provided in Note 17.

The financial statements of Bird River Resources Inc. for the year ended July 31, 2012 were reviewed by the Audit Committee and approved and authorized for issue by the Board of Directors on November 27, 2012.

2. Significant accounting policies

(a) Basis of measurement

These financial statements have been prepared on a historical cost basis except for financial instruments classified as financial instruments at fair value through profit or loss, which are stated at their fair value.

The accounting policies set out below have been applied consistently in the financial statements and in preparing the opening IFRS statement of financial position at August 1, 2010 for the purpose of the transition to IFRS, unless otherwise indicated.

(b) Going concern of operations

The going concern assumption implies 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. There is doubt about the appropriateness of the use of the going concern assumption because the company has experienced ongoing losses and negative cash flows from operations over a number of years.

2. Significant accounting policies (continued)

(b) Going concern of operations (continued)

The company has not yet determined whether its exploration and evaluation assets 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 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.

(c) 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, trusts, 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.

(d) Inventory

Inventory is valued at the lower of cost and net realizable value. The cost of inventory is assigned using the first-in, first-out costing formula. Net realizable value is the estimated selling price in the ordinary course of business, less estimated costs of selling. In the current period, the company recognized $35,308 of inventory as an expense (2011 - $18,326) and no inventory has been valued at net realizable value.

(e) Property and equipment

Recognition and measurement

Equipment is recorded at historical cost less accumulated depreciation and impairment losses. Residual values, depreciation methods and useful economic lives are reviewed and adjusted as necessary at the end of the reporting period.

Cost includes expenditures that are directly attributable to the acquisition of the asset. When components of equipment have different useful lives, they are accounted for as a separate item of equipment.

Petroleum and natural gas properties represent the cost of developing the commercial reserves and bringing them into production. These assets include the exploration and evaluation costs that are reclassified to property and equipment in accordance with the accounting policy for exploration and evaluation assets as described in Note 2(f).

Subsequent costs

The cost of replacing a component of an item of equipment is recognized in the carrying amount of the item if it is probable that the future economic benefit embodied within the component will flow to the company, and its costs can be reliably measured. The carrying amount of the replaced component is derecognized. The costs of servicing equipment are recognized in profit or loss as incurred.

2. Significant accounting policies (continued)

(e) Property and equipment (continued)

Depletion and depreciation

Equipment is depreciated based on the cost of an asset less its residual value. Depreciation methods and rates are applied consistently within each asset except where significant individual assets have been identified which have different depreciation patterns. Depreciation is recognized in profit or loss. The following rates and method are used:

	Rate	Method
Exploration and evaluation equipment	20%	Declining balance
Vehicles	30%	Declining balance
Petroleum and natural gas properties	-	Unit of production

In the year of acquisition, depreciation is provided at one-half the declining balance rate. Depreciation methods and useful lives are reviewed at each reporting date and adjusted as required.

An item of equipment is de-recognized 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 the statements of income or loss.

Petroleum and natural gas properties are depleted using the unit of production method based on the ratio of production in the year to the related proven and probable reserves, taking into account estimated future development costs necessary to bring those reserves into production.

(f) Exploration and evaluation expenditures

Costs incurred prior to obtaining the legal right to undertake exploration and evaluation activities on a project are expensed as incurred.

Capitalized costs

Exploration and evaluation expenditures, which include petroleum and natural gas properties and mineral exploration properties, are defined as costs incurred after having obtained the legal right to explore the property and before the technical and commercial viability of extracting resources are demonstrated.

The company follows the full cost method whereby all costs associated with the acquisition, exploration and development of reserves are capitalized in cost centers from the time the company obtains legal right to undertake exploration and evaluation activities on a project. 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 the acquisition. These expenditures are capitalized when the company expects that future economic benefits will flow to the company and when the amounts can be reliably measured. For properties which do not yet have proven reserves, the amounts shown represent costs to date and are not intended to represent present or future values. The recoverability of the costs is dependent upon the discovery of economically recoverable reserves, confirmation of the company's interests in the underlying claims, the ability to obtain necessary financing to complete development and the development of future profitable production from the properties or realization of sufficient proceeds from the disposition of the properties.

If technical feasibility and commercial viability have been established, the carrying amount of the related exploration and evaluation asset is tested for impairment as discussed below. The carrying value, net of any impairment loss, is then reclassified to property and equipment as mineral exploration properties or petroleum and natural gas properties. If the company decides not to continue the exploration and evaluation activity, then the accumulated costs are expensed as impairment in the period in which the event occurs.

2. Significant accounting policies (continued)

(f) Exploration and evaluation expenditures (continued)

Impairment test

Exploration and evaluation assets are reviewed for impairment only when facts and circumstances suggest that the carrying amount may exceed the recoverable amount or when technical feasibility and commercial viability have been established. The recoverable amount of an asset or cash-generating unit is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income.

When an impairment loss subsequently reverses, excluding impairment losses for exploration and evaluation assets reclassified to property and equipment as petroleum and natural gas properties, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years.

(g) Borrowing costs

The company capitalizes borrowing costs that are directly attributable to the acquisition, construction or production of a qualifying asset as part of the cost of that asset when it is probable that these costs will result in future economic benefits and when they can be reliably measured. A qualifying asset is an asset that necessarily takes a substantial period of time to get ready for its intended use or sale. All other borrowing costs are expensed as incurred.

(h) Provisions

General

Provisions are recorded when a present legal or constructive obligation exists as a result of past events where it is probable that an outflow of resources embodying economic benefits will be required to settle the obligation and a reliable estimate of the amount of the obligation can be made. The expense relating to any provision is presented in profit or loss net of any reimbursement.

Decommissioning obligations

The company recognizes the fair value of a liability for decommissioning obligations in the period in which the company is legally or constructively required to remediate, if a reasonable estimate of fair value can be made, based on an estimated future cash settlement of the decommissioning obligation, discounted at a pre-tax rate that reflects the current market assessments of the time value of money and the risks specific to the obligation. The decommissioning obligation is capitalized as part of the carrying amount of the associated long-lived asset and a liability is recorded. The decommissioning obligation is amortized on the same basis as the related asset. The liability is adjusted for the accretion of the discounted obligation and any changes in the amount or timing of the underlying future cash flows. Significant judgments and estimates are involved in forming expectations of the amounts and timing of decommissioning obligation cash flows. The company has assessed each of its exploration and evaluation assets and determined that a decommissioning obligation exists at year end in the amount of $6,269 (2011 - $Nil).

(i) Jointly controlled operations

A portion of the company's exploration activities is conducted jointly with others wherein the company enters into agreements that provide for specified percentage interest in petroleum and natural gas properties and exploration and evaluation assets. The company accounts for its investment in joint ventures using the proportionate consolidation method.

2. Significant accounting policies (continued)

(j) Loss per share

Diluted 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 therefrom were used to purchase common shares of the company at the estimated average trading price of the common shares during the year.

(k) Revenue recognition

Revenue from sales of precious metals and petroleum and natural gas is recognized when the significant risks and rewards of ownership are transferred to the buyer, which is when legal title passes to the buyer and when collection is reasonably assured. This is generally at the time product enters the pipeline or is delivered to the refinery.

Revenue from the sale of industrial minerals is recognized when goods are shipped and when collection is reasonably assured.

Interest income is recognized as accrued.

(l) Income taxes

Income tax expense comprises current and deferred tax. Current tax and deferred tax are recognized in profit or loss except to the extent that the tax relates to items recognized directly in equity or in other comprehensive income.

(i) Current income tax

Current tax is the expected tax payable or receivable on the taxable income or loss for the year, using tax rates enacted or substantively enacted at the reporting date, and any adjustments to tax payable in respect of previous years.

(ii) Deferred income tax

Deferred tax is recognized in respect of temporary differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax is measured at the enacted or substantially enacted tax rates expected to be recovered or settled .The effect on deferred 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.

A deferred tax asset is recognized for unused tax losses, tax credits and deductible temporary differences, to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

(m) Share-based payments

The company has implemented a stock option plan to allow the company to grant options to directors, officers, employees and service providers. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee, including directors and officers of the company. The maximum number of common shares which may be issued pursuant to those granted under the stock option plan are limited to 1,892,000 common shares at a price determined by the Board of Directors. In addition, the number of options issued to any one individual may not exceed 5% of the issued common shares on a yearly basis. For any person providing ongoing services or employed in investor relations activities, the number of options granted may not exceed 2% of the issued common shares on a yearly basis.

2. Significant accounting policies (continued)

(m) Share-based payments (continued)

The company uses the fair value-based approach to account for share-based payments under their stock option plan. 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 the Black-Scholes option-pricing model. The fair value of the options is adjusted by the estimate of the number of options that are expected to vest as a result of non-market conditions. At each balance sheet date, the company revises its estimate of the number of options that are expected to vest.

The fair values of the options issued, if any, are credited to share-based payments reserve in the period they vest. Upon exercise of the share purchase options, consideration paid together with the amount previously recognized in share-based payments reserve is recorded as an increase in share capital. Charges to share purchase options that are forfeited before vesting are reversed from share-based payments reserve. For those share purchase options that expire or are forfeited after vesting, the amount previously recorded in share-based payments reserve is transferred to retained earnings or deficit.

Share-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 share-based payment.

(n) Financial instruments

(i) Non-derivative financial assets

Financial assets are classified into the following categories: financial assets at fair value through profit or loss ("FVTPL"), held-to-maturity, available-for-sale financial assets and loans and receivables. The classification depends on the nature and purpose of the financial assets and is determined at the time of initial recognition. All financial assets are recognized on the trade date where the purchase or sale of a financial asset is under a contract whose terms require delivery of the financial asset within the time frame established by the market concerned, and are initially measured at fair value, plus transaction costs, except for those financial assets classified as FVTPL which are initially measured at fair value.

Financial assets at fair value through profit or loss

A financial asset is classified at fair value through profit or loss if it is considered to be held-for-trading or is designated as such upon initial recognition. Financial assets are designated at fair value through profit or loss if the company manages such investments and makes purchase and sale decisions based on their fair value in accordance with the company's risk management or investment strategy. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial assets at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Held-to-maturity

A financial asset is classified as held-to-maturity if the asset has fixed or determinable payments and fixed maturities that the company's management has the intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method. Any changes to the carrying amount of the asset, including impairment losses, are recognized in other comprehensive income.

2. Significant accounting policies (continued)

(n) Financial instruments (continued)

Available-for-sale financial assets

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale and that are not classified as loans and receivables, held-to-maturity or financial assets at fair value through profit or loss. Subsequent to initial recognition, they are measured at fair value and changes therein, other than impairment losses, are recognized in other comprehensive income and presented within equity in the fair value reserve. Equity instruments that do not have an active market are recorded at cost. When an investment is derecognized, the cumulative gain or loss in other comprehensive income is transferred to profit or loss.

Loans and receivables

Loans and receivables are financial assets with fixed or determinable payments that are not quoted in an active market. Such assets are recognized initially at fair value plus any directly attributable transaction costs. Subsequent to initial recognition, loans and receivables are measured at amortized cost using the effective interest method, less any impairment losses.

De-recognition of financial assets

The company derecognizes a financial asset when the contractual rights to the cash flows from the asset expire, or it transfers the rights to receive the contractual cash flows on the financial asset in a transaction in which substantially all the risks and rewards of ownership of the financial asset are transferred.

(ii) Non-derivative financial liabilities

Financial liabilities are classified as either financial liabilities at fair value through profit or loss or other financial liabilities.

Financial liabilities at fair value through profit or loss

A financial liability is classified at fair value through profit or loss if it is considered to be held-for-trading or is designated as such upon initial recognition. Upon initial recognition, attributable transaction costs are recognized in profit or loss as incurred. Financial liabilities at fair value through profit or loss are measured at fair value, and changes therein are recognized in profit or loss.

Other financial liabilities

Other financial liabilities, including borrowings, are initially measured at fair value, net of transaction costs. Other financial liabilities are subsequently measured at amortized cost using the effective interest method, with interest recognized on an effective yield basis.

De-recognition of financial liabilities

The company de-recognizes financial liabilities when the company's obligations are discharged, cancelled or they expire.

(iii) The company's financial instruments consist of the following:

Financial instrument	Classification	Measurement
Cash and cash equivalents	FVTPL	Fair value
Trade receivables	Loans and receivables	Amortized cost
Goods and services tax recoverable	Loans and receivables	Amortized cost
Note receivable	Loans and receivables	Amortized cost
Trade payables	Other financial liabilities	Amortized cost
Other payables	Other financial liabilities	Amortized cost

2. Significant accounting policies (continued)

(o) Impairment of long-lived assets

(i) Financial assets

A financial asset not carried at fair value through profit or loss is assessed at each reporting date to determine whether there is objective evidence that it is impaired. A financial asset is considered to be impaired if objective evidence indicates that one or more events have had a negative effect on the estimated future cash flow.

Financial assets measured at amortized cost

An impairment loss in respect of a financial asset measured at amortized cost is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the original effective interest rate. When a subsequent event causes the amount of impairment loss to decrease, the decrease in impairment loss is reversed through profit or loss.

Financial assets carried at cost

An impairment loss of a financial asset carried at cost, where its fair value cannot be reliably measured, is calculated as the difference between its carrying amount and the present value of the estimated future cash flows discounted at the current market rate of similar financial assets. Such impairment losses are not reversed.

Available-for-sale financial assets

An impairment loss of an available-for-sale investment security is recognized by transferring the cumulative loss that has been recognized in other comprehensive income, and presented in the fair value reserve in equity, to profit or loss. The cumulative loss that is removed from other comprehensive income and recognized in profit or loss is the difference between acquisition cost, net of any principal repayment and amortization, and the current fair value, less any impairment loss previously recognized in profit or loss.

If, in a subsequent period, the fair value of an impaired available-for-sale debt security increases, the impairment loss is reversed, with the amount of the reversal recognized in profit or loss. If, however, the fair value of an impaired available-for-sale equity security increases, the amount of reversal is recognized in other comprehensive income.

(ii) Non-financial assets

At each reporting date, the company reviews the carrying amounts of its tangible and intangible assets, other than exploration and evaluation assets, to determine whether there is an indication that those assets have been impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss, if any. Where it is not possible to estimate the recoverable amount of an individual asset, the company estimates the recoverable amount of the cash generating unit to which the assets belong.

The recoverable amount of an asset or cash-generating unit is the higher of fair value less costs to sell and value in use. If the recoverable amount of an asset or cash-generating unit is estimated to be less than its carrying amount, the carrying amount of the asset or cash-generating unit is reduced to its recoverable amount. An impairment loss is recognized immediately in the statement of comprehensive income.

When an impairment loss subsequently reverses, the carrying amount of the asset or cash-generating unit is increased to the revised estimate of its recoverable amount, but so that the increased carrying amount does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset or cash-generating unit in prior years.

2. Significant accounting policies (continued)

(p) Use of estimates and judgments

The preparation of financial statements requires management to make accounting estimates and assumptions requiring judgment in applying the company's accounting policies. These estimates and assumptions may affect the reported amounts of assets and liabilities and the disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the reporting period. Significant areas requiring the use of management estimates are as follows:

Depletion and valuation of property and equipment

The amounts recorded for depletion of petroleum and natural gas properties and the valuation of petroleum and natural gas properties are based on estimates. These estimates include proven and probable reserves, future production rates, future petroleum and natural gas prices, remaining lives and period of future benefits of the related assets and other relevant assumptions.

The company's reserve estimates are evaluated annually. Assumptions that are valid at the time of reserve estimation may change significantly when new information becomes available. Changes in forward price estimates, production costs, future development costs or recovery rates may change the economic status of reserves and may ultimately result in reserves being restated. Changes in reserve estimates impact the financial results of the company as reserves and estimated future development costs are used to calculate depletion and are also used in impairment calculations.

The determination of cash-generating units, used in impairment tests, requires judgement in defining the smallest identifiable group of assets that generate cash inflows that are largely independent of the cash inflows from other assets or groups of assets. Cash-generating units are determined by similar geological structure, shared infrastructure, geographical proximity, commodity type, similar exposure to market risks and materiality.

The discount rate used to calculate the net present value of cash flows for impairment testing is based on estimates of market conditions, recent asset sales and an approximate industry peer group weighted average cost of capital. Changes in the general economic environment could result in significant changes to this estimate.

Valuation of exploration and evaluation assets

The value of exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves which in turn is dependent on future petroleum and natural gas prices, future capital expenditures and environmental and regulatory restrictions.

The decision to transfer assets from exploration and evaluation assets to property and equipment is based on estimated proved and probable reserves which are in part used to determine a project's technical feasibility and commercial viability.

Income taxes

The amounts recorded for deferred income taxes are based on estimates as to the timing of the reversal of temporary differences and tax rates currently substantively enacted. They are also based on estimates of the probability of the company utilizing certain tax pools and assets which, in turn, is dependent on estimates of proved and probable reserves, production rates, future petroleum and natural gas prices and changes in legislation, tax rates and interpretations by taxation authorities. The availability of tax pools is subject to audit and interpretation by taxation authorities. To the extent assumptions regarding future profitability change, there can be an increase or decrease in the amounts recognized in respect of deferred tax assets as well as the amounts recognized in profit or loss in the period in which the change occurs.

2. Significant accounting policies (continued)

(p) Use of estimates and judgments (continued)

Share based payments

The amounts recorded relating to the fair value of stock options and warrants issued are based on estimates of the future volatility of the company's share price, market price of the company's shares at grant date, expected lives of the options, expected forfeiture rate, expected dividends and other relevant assumptions.

(q) Recent accounting announcements

Standards issued but not yet effective up to the date of issuance of the company's financial statements are listed below. This listing is of the standards and interpretations issued, which the company reasonably expects to be applicable at a future date. The company intends to adopt those standards when they become effective. The company does not expect the impact of such changes on the financial statements to be material.

IFRS 9 *Financial Instruments: Classification and measurement*

IFRS 9, as issued, reflects the first phase of the International Accounting Standards Board's ("IASB's") work on the replacement of IAS 39 and applies to classification and measurement of financial assets as defined in IAS 39. The standard is effective for annual periods beginning on or after January 1 2015. In subsequent phases, the IASB will address classification and measurement of financial liabilities, hedge accounting and derecognition. The adoption of the first phase of IFRS 9 may have an effect on the classification and measurement of the company's financial assets.

IFRS *10 Consolidated Financial Statements*

IFRS 10 requires an entity to consolidate an investee when it is exposed, or has rights, to variable returns from its involvement with the investee and has the ability to affect those returns through its power over the investee. IFRS 10 replaces SIC-12 Consolidation - *Special Purpose Entities* and parts of IAS 27 *Consolidated and Separate Financial Statements*. The standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 11 *Joint Arrangements*

IFRS 11 requires a venturer to classify its interest in a joint arrangement as a joint venture or a joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for a joint operation the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31 *Interests in Joint Ventures* and SIC-13 *Jointly Controlled Entities - Non-Monetary Contributions by Venturers*. The standard is effective for annual periods beginning on or after January 1, 2013.

IFRS 12 *Disclosure of Interests in Other Entities*

IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity. This standard is effective for annual period beginning on or after January 1, 2013.

IFRS 13 *Fair Value Measurements*

IFRS 13 defines fair value, sets out in a single IFRS framework for measuring value and requires disclosure about fair value measurements. IFRS 13 applies to IFRSs that require or permit fair value measurements or disclosures about fair value measurement, except in specified circumstances. The standard is effective for annual periods beginning on or after January 1, 2013.

(Expressed in Canadian dollars)

2. Significant accounting policies (continued)

(q) Recent accounting announcements (continued)

IAS 1 *Presentation of Financial Statements* (Amended)

The amendments retain the option to present profit or loss and other comprehensive income either in one continuous statement or in two separate but consecutive statements. Items of other comprehensive income are required to be grouped into those that will and will not be subsequently classified to profit or loss. Tax on items of other comprehensive income is required to be allocated on the same basis. The measurement and recognition of items of profit or loss and other comprehensive income are not affected by the amendments. The amendment is effective for annual periods beginning on or after July 1, 2012.

IAS 19 *Employee Benefits* (Amended)

The amendments require the recognition of changes in the defined benefit obligation and in plan assets when those changes occur, eliminating the corridor approach and accelerating the recognition of past service costs. The amendment is effective for annual periods beginning on or after January 1, 2013.

IAS 27 *Separate Financial Statements* (Amended)

IAS 27 was re-issued by the IASB on May 12, 2011 in order to conform to changes as a result of the issuance of IFRS 10, IFRS 11, and IFRS 12. IAS 27 will now only prescribe the accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements as the consolidation guidance will now be included in IFRS 10. The amendment is effective for annual periods beginning on or after January 1, 2013.

IAS 28 *Investment in Associates and Joint Ventures* (Amended)

IAS 28 was re-issued by the IASB on May 12, 2011 in order to conform to changes as a result of the issuance of IFRS 10, IFRS 11, and IFRS 12. IAS 28 continues to prescribe the accounting for investments in associates, but is now the only source of guidance describing the application of the equity method. The amended IAS 28 will be applied by all entities that are investors with joint control of, or significant influence over, an investee. The amendment is effective for annual periods beginning on or after January 1, 2013.

3. Evaluation and exploration expenses

During the period ending July 31, 2012, the company has expensed evaluation and exploration costs in the amount of $Nil (2011- $Nil).

4. Cash and cash equivalents

	July 31 2012	July 31 2011	August 1 2010
Cash	$ 21,447	$ 12,159	$ 3,967
Treasury bills - Money market fund	294,745	562,176	788,205
Total cash and cash equivalents	$ 316,192	$ 574,335	$ 792,172

Cash is deposited at an established Canadian financial institution.

(Expressed in Canadian dollars)

5. Note receivable

The note receivable bears interest at 13%, is due in December 2012 (2011 - due in December 2011), and is secured by a general security agreement.

6. Property and equipment

	Exploration and evaluation equipment	Vehicles	Petroleum and natural gas properties	Total
Cost				
Balance, August 1,2010 and July 31, 2011	$ 52,333	$ 11,342	$ -	$ 63,675
Transfers from exploration and evaluation assets	-	-	278,721	278,721
Decommissioning obligations	-	-	6,269	6,269
Balance, July 31, 2012	$ 52,333	$ 11,342	$ 284,990	$ 348,665
Accumulated depletion and depreciation				
Balance, August 1, 2010	$ 46,527	$ 8,148	$ -	$ 54,675
Depletion and depreciation for the period	1,161	958	-	2,119
Balance, July 31, 2011	47,688	9,106	-	56,794
Depletion and depreciation for the period	929	671	13,850	1,600
Balance, July 31, 2012	$ 48,617	$ 9,777	$ 13,850	$ 58,394
Carrying value				
At, August 1, 2010	$ 5,806	$ 3,194	$ -	$ 9,000
At, July 31, 2011	$ 4,645	$ 2,236	$ -	$ 6,881
At, July 31, 2012	$ 3,716	$ 1,565	$ 271,140	$ 276,421

7. Exploration and evaluation assets

(a) The company has capitalized the following amounts:

	July 31 2012	July 31 2011	August 1 2010
Petroleum and natural gas properties:			
Interest in joint venture (i)	$ 73,439	$ 176,671	$ 67,671
Lease holdings (ii)	126,703	86,488	-
	200,142	263,159	67,671
Mineral exploration properties (iii)	273	273	273
	$ 200,415	$ 263,432	$ 67,944

(Expressed in Canadian dollars)

7. Exploration and evaluation assets (continued)

(b) A summary of the exploration and evaluation asset activity for the period is as follows:

Balance, August 1, 2010	$	67,944
Costs incurred during the period		195,488
Balance,July 31, 2011	$	263,432
Costs incurred during the period		255,529
Transfers to property and equipment (iv)		(278,721)
Impairment as a result of transferring certain assets to property and equipment (iv)		(39,825)
Balance, July 31, 2012	$	200,415

(i) 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 eleven oil wells (LSD 6-13-7-29, LSD 2-29-2-28, LSD 14-15-8-28, HZ 13-15-8-28, HZ 11-26-1-28, HZ 12-15-8-28, HZ 7-34-1-28, HZ 13-23-1-28, HZ 15-30-1-27, HZ 3-15-8-28, and HZ 16-16-7-28). 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.

(ii) The company has invested in eight lease holdings as follows:

1) Northwest quarter 23-1-28, 25% owned with a three-year lease term.
2) Southwest quarter 23-1-28, 25% owned with a three-year lease term.
3) Northeast quarter 14-4-22, 100% owned with a five-year lease term.
4) Northeast quarter 17-1-27, 25% owned with a three-year lease term.
5) Northeast quarter 23-1-28, 25% owned with a three-year lease term.
6) Northeast quarter 30-1-27, 25% owned with a three-year lease term.
7) Northeast quarter 2-3-26, 17.5% owned with a two-year lease term.
8) Southeast quarter 2-3-26, 17.5% owned with a two-year lease term.

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

The company previously held an exploration property known as the Ore Fault property located on the Bird River Greenstone Belt, 125 kilometres 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.

(Expressed in Canadian dollars)

7. Exploration and evaluation assets (continued)

(iv) Impairment test

During the year ended July 31, 2012, the technical and commercial viability of extracting resources has been demonstrated for the following nine oil wells: LSD 6-13-7-29, LSD 2-29-2-28, LSD 14-15-8-28, HZ 13-15-8-28, HZ 11-26-1-28, HZ 12-15-8-28, HZ 7-34-1-28, HZ 3-15-8-28, and HZ 16-16-7-28. As a result, the company transferred the costs associated with these oil wells to property and equipment. Prior to the transfer, the company assessed the recoverability of its investment by performing an impairment test at the cash-generating unit level. The recoverable amount of each cash-generating unit was estimated based on the higher of the value in use and the fair value less cost to sell. The estimated fair value less cost to sell was used and was determined using estimated future cash flows based on estimated reserves, discounted at 10%, with prices as noted below. Based on the impairment test, the carrying amount of the investments was impaired in the amount of $39,825 as at July 31, 2012 (2011 - $Nil) and $278,721 (2011 - $Nil) was transferred to property and equipment.

The benchmark and company's forecast prices used in the impairment test calculations were primarily based on future commodity prices and are as follows:

	Light oil (Cdn$/bbl)
2013	91.13
2014	89.55
2015	87.55
Thereafter, 2% increase for inflation	

8. Other payables

The company's other payables are as follows:

	July 31 2012	July 31 2011	August 1 2010
Provincial sales taxes payable	$ 382	$ 50	$ 344
Accrued liabilities	39,073	37,078	25,043
Total other payables	$ 39,455	$ 37,128	$ 25,387

9. Decommissioning obligations

The company's decommissioning obligations result from its ownership interest in petroleum and natural gas properties. The total decommissioning provision is estimated based on the company's net ownership interest in all wells and facilities, estimated costs to reclaim and abandon these wells and facilities and the estimated timing of the costs to be incurred in future years. The total estimated undiscounted cash flows required to settle the provisions, before considering salvage, is approximately $15,000 as at July 31, 2012 (2011 - $nil), which has been discounted using a pre-tax rate of 2.96% reflecting the time value of money and the risks specific to the obligation. These obligations are to be settled based on the economic lives of the underlying assets, which currently extend up to 25 years into the future and will be funded from general corporate resources at the time of abandonment.

The company's decommissioning obligations for the year ended July 31, 2012 are as follows:

Balance, July 31, 2011	$ -
Liability incurred	6,269
Balance, July 31, 2012	$ 6,269

(Expressed in Canadian dollars)

10. Income taxes

(a) Canadian development and exploration expenditures

As at July 31, 2012, the company had $123,670 (2011 - $176,671) of unused Canadian exploration and development expenses and $307,815 (2011 - $86,488) of unused Canadian oil and gas property expenses available to offset future taxable income of the company. The tax benefit of these expenses carry forward indefinitely.

(b) Losses

As at July 31, 2012 the company had non-capital tax losses of $nil (2011 - $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 27% (2011 - 29%). The reasons for the differences are as follows:

	2012	2011
Income tax recovery computed at statutory rates	$ 24,300	$ 39,300
Permanent differences	(3,200)	(6,500)
Change in unrecognized deferred tax asset	17,715	-
	$ 38,815	$ 32,800

The components of the company's net future income tax asset at July 31, 2012 and 2011 are as follows:

	2012	2011
Future income tax assets		
Property and equipment	$ -	$ 1,000
Exploration and evaluation assets	62,400	-
	62,400	1,000
Future income tax liability		
Property and equipment	73,200	-
Net future income tax asset	(10,800)	1,000
Valuation allowance	10,800	(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)

11. 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, 2012	Number of common shares		Amount
Balance, July 31, 2011	10,470,225	$	998,457
Stock options exercised (i)	100,000		13,790
Balance, July 31, 2012	10,570,225	$	1,012,247

Year ended July 31, 2011	Number of common shares		Amount
Balance, August 1, 2010	9,470,558	$	927,687
Private placement (ii)	999,667		70,770
Balance, July 31, 2011	10,470,225	$	998,457

(i) On November 21, 2011, 100,000 director's options were exercised at a price of $0.10 per option. In addition to the gross proceeds of $10,000, the recorded amount of $13,790 included the fair market value of the options previously recorded in share-based payments reserve in the amount of $3,790.

(ii) 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 of $70,770 represents gross proceeds of $74,975 less share issue costs of $4,205.

(c) Loss per share

The calculation of basic and diluted loss per share, for the year ended July 31, 2012, and 2011 is based on the following losses and number of shares:

	2012	2011
(Loss) for the period	$ (51,280)	$ (102,808)
Weighted average number of shares	10,539,540	10,015,582

All of the outstanding stock options and warrants were anti-dilutive for the relevant period.

(Expressed in Canadian dollars)

12. General and administrative expenses

	2012	2011
Automotive	$ 8,293	$ 8,266
Director's fees	12,000	15,000
Management fee	46,600	45,300
Office	5,082	4,234
Professional fees	25,406	23,071
Rent	9,600	9,600
Repairs and maintenance	1,099	2,800
Stock transfer and filing fees	17,492	17,205
Telephone	6,075	5,209
Travel	1,729	1,178
	$ 133,376	$ 131,863

13. Share-based payments

(a) Outstanding options

The following table summarizes the 1,000,000 outstanding options as at July 31, 2012:

	Number outstanding	Exercise price	Expiry date
Directors' options (i) and (ii)	1,000,000	$0.10	June 10, 2015

(i) On April 9, 2012 the company issued 200,000 incentive stock options to directors and officers of the company. The exercise price is $0.10 per common share and the options expire on June 10, 2015. These options have a vesting period of 18 months with 1/6 vesting every three months beginning April 1, 2012.

The estimated fair value of the stock options vested during the year in the amount of $2,138 has been recorded as an expense.

The estimated fair value of stock options granted was estimated using the Black-Scholes option pricing model on the date of grant with the following assumptions:

Expected stock price volatility	85%
Expected option life	3 years
Risk free interest rate	0.98%
Expected dividend yield	-
Stock price at grant	$0.09
Exercise price	$0.10

(ii) On June 18, 2010, the company issued 900,000 stock options to officers and directors of the company. The exercise price of these stock options is $0.10 per share and these options expire on June 10, 2015. These 900,000 stock options granted have a vesting period of 18 months with 1/6 vesting every 3 months beginning July 1, 2010.

The estimated fair value of the stock options vested during the year in the amount of $9,474 has been recorded as an expense.

(Expressed in Canadian dollars)

13. Share-based payments (continued)

(a) Outstanding options (continued)

The estimated fair value of stock options granted was estimated using the Black-Scholes option pricing model on the date of grant with the following assumptions:

Expected stock price volatility	85%
Expected option life	5 years
Risk free interest rate	0.25%
Expected dividend yield	-
Stock price at grant	$0.065
Exercise price	$0.10

Option pricing models require the input of highly subjective assumptions including the expected price volatility. Changes in the subjective input assumptions can materially affect the fair value estimate. Therefore, the existing models do not necessarily provide a reliable single measure of the value of the company's stock options.

(b) Changes in stock options

A summary of the changes in stock option activity for the years ended July 31, 2012 and 2011 is as follows:

	2012		2011	
	Weighted average exercise price	Number of options	Weighted average exercise price	Number of options
Outstanding, beginning of year	$ 0.10	900,000	$ 0.10	900,000
Granted	0.10	200,000	-	-
Exercised	0.10	(100,000)	-	-
Outstanding and exercisable, end of year	$ 0.10	1,000,000	$ 0.10	900,000

The options outstanding at the end of the period have an exercise price of $0.10 per share and a weighted average remaining contractual life of 2.86 years.

(c) Effects on profit or loss

The total estimated fair value of the options granted and recognized as an expense for the year ending July 31, 2012 is $11,612 (2011 - $22,740).

14. Related party transactions

(a) Key management personnel compensation

The company did not pay employment based remuneration to directors, officers and other members of key management, for the year ended July 31, 2012 and 2011. However, the company did pay contract based remuneration to directors, officers and other members of key management as disclosed in Note 14 (b).

14. Related party transactions (continued)

(b) Other related party transactions

During the year ended July 31, 2012, the company paid management fees in the amount of $30,000 (2011 - $30,000) to a director and officer of the company and $16,600 (2011 - $15,300) to another director and officer. The company also paid rent in the amount of $9,600 (2011 - $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, 2012, included in accounts payable are amounts owing to directors and officers of the company in the amount of $9,000 (2011 - $23,800).

15. 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) Price risk

The company is exposed to price risk with respect to commodity prices of oil and gas. The company monitors commodity prices in order to manage their exposure to these risks. An annual average change of 1% in crude oil prices would affect the reported net income by $1,416.

(iii) Credit risk

Credit risk refers to the risk that a counterparty will default on its contractual obligations resulting in a financial loss to the entity. The company is exposed to credit risk on cash, trade receivables and other receivables. Cash is held with an established Canadian bank and the company's other receivables are from Canadian government entities, from which management believes the risk of loss to be remote. The company does not have any derivatives or similar instruments that mitigate the maximum exposure to credit risk.

The carrying amount of financial assets recorded in the financial statements in the amount of $412,870 (2011 - $638,544) represents the maximum exposure to credit risk at the reporting date.

(iv) Liquidity risk

Liquidity risk is the risk that arises when the maturity of assets and liabilities does not match. Management monitors the company's liquidity by assessing forecast and actual cash flows and by maintaining adequate cash on hand. It is management's opinion that it is unlikely that the company will encounter difficulty in raising funds to meet commitments associated with financial instruments. As at July 31, 2012 the company has working capital in the amount of $377,327 (2011 - $607,249).

(Expressed in Canadian dollars)

15. Financial instruments (continued)

The contractual maturities of financial liabilities, at July 31, 2012, based on the earliest date on which payment can be required, were as follows:

	Total amount	Six month or less	More than six months
Trade payables	$ 9,000	$ 9,000	$ -
Other payables	39,455	33,784	5,671
	$ 48,455	$ 42,784	$ 5,671

(v) Interest rate risk

The company is not exposed to any meaningful interest rate risk due to the short term nature of its interest generating assets.

(b) Sensitivity analysis

The company has cash and cash equivalents subject to interest rate risk of approximately $316,192. A 1% change in the primary interest rate would affect the reported net income, on an annualized basis, by $3,162.

(c) Fair values, carrying amounts and changes in fair value

The fair values of the company's financial instruments approximate their carrying value due to their short-term nature. 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 prioritised into three levels.

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.

The company's financial instruments within the fair value hierarchy as at July 31, 2012 is as follows:

	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 316,192	$ -	$ -

The company's financial instruments within the fair value hierarchy as at July 31, 2011 is as follows:

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

The company's financial instruments within the fair value hierarchy as at August 1, 2010 is as follows:

	Level 1	Level 2	Level 3
Cash and cash equivalents	$ 792,172	$ -	$ -

(d) Collateral

The carrying value of financial assets the company has pledged as collateral is $nil (2011 - $nil).

16. 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 and petroleum and natural gas 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, 2012, the company had managed capital (being total Shareholders' equity) of $847,894 (July 31, 2011 - $877,562).

A number of 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, 2012. The company is not subject to externally imposed capital requirements.

17. Explanation of transition to IFRS

The company has adopted IFRS on August 1, 2011 with a transition date of August 1, 2010. Under IFRS 1 *First-time Adoption of International Financial Reporting Standards*, the IFRS are applied retrospectively at the transition date with all adjustments to assets and liabilities as stated under GAAP recorded to retained earnings, unless certain exemptions apply.

Exemptions applied

The company has applied the optional exemption under IFRS 2 *Share-based Payment* to equity instruments that were granted on or before November 7, 2002, or equity instruments that were granted subsequent to November 7, 2002 and vested before the later of the date of transition to IFRS and January 1, 2005. The company has elected not to apply IFRS 2 to awards that vested prior to August 1, 2010, which have been accounted for in accordance with Canadian generally accepted accounting principles.

The company has applied the mandatory exemption under IFRS 1 in the conversion from Canadian generally accepted accounting principles to IFRS. In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under Canadian generally accepted accounting principles unless those estimates were in error. The company's IFRS estimates as at the transition date are consistent with its Canadian generally accepted accounting principles estimates as at that date.

The transition from previous GAAP to IFRS has resulted in reclassifications on the company's statement of financial position and operations and comprehensive loss as outlined below.

(Expressed in Canadian dollars)

17. Explanation of transition to IFRS (continued)

(a) Reconciliation of Canadian GAAP to IFRS

The August 1, 2010 Canadian GAAP balance sheet has been reconciled to IFRS as follows:

	August 1, 2010		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets:			
Cash and cash equivalents	$ 792,172	-	$ 792,172
Trade receivables	8,068	-	8,068
Goods and services tax recoverable	733	-	733
Income tax recoverable	36,800	-	36,800
Inventory	13,799	-	13,799
Total current assets	851,572	-	851,572
Non-current assets:			
Machinery and equipment	9,000	-	9,000
Exploration and evaluation assets	67,944	-	67,944
Total non-current assets	76,944	-	76,944
Total assets	$ 928,516	-	$ 928,516
Liabilities and Equity			
Liabilities:			
Current liabilities:			
Trade payables	$ 16,269	-	$ 16,269
Other payables	25,387	-	25,387
Total liabilities	41,656	-	41,656
Equity:			
Share capital	927,687	-	927,687
Share-based payments reserve	54,155	-	54,155
(Deficit)	(94,982)	-	(94,982)
Total equity	886,860	-	886,860
Total liabilities and equity	$ 928,516	-	$ 928,516

(Expressed in Canadian dollars)

17. Explanation of transition to IFRS (continued)

The July 31, 2011 Canadian GAAP balance sheet has been reconciled to IFRS as follows:

	July 31, 2011		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Assets			
Current assets:			
Cash and cash equivalents	$ 574,335	-	$ 574,335
Trade receivables	5,906	-	5,906
Goods and services tax recoverable	227	-	227
Income tax recoverable	32,800	-	32,800
Inventory	16,209	-	16,209
Note receivable	25,276	-	25,276
Total current assets	654,753	-	654,753
Non-current assets:			
Machinery and equipment	6,881	-	6,881
Exploration and evaluation assets	263,432	-	263,432
Total non-current assets	270,313	-	270,313
Total assets	$ 925,066	-	$ 925,066
Liabilities and Equity			
Liabilities:			
Current liabilities:			
Trade payables	$ 10,376	-	$ 10,376
Other payables	37,128	-	37,128
Total liabilities	47,504	-	47,504
Equity:			
Share capital	998,457	-	998,457
Share-based payments reserve	76,895	-	76,895
(Deficit)	(197,790)	-	(197,790)
Total equity	877,562	-	877,562
Total liabilities and equity	$ 925,066	-	$ 925,066

(Expressed in Canadian dollars)

17. Explanation of transition to IFRS (continued)

The statement of operations and comprehensive loss for the year ended July 31, 2011 under Canadian GAAP has been reconciled to IFRS as follows:

	July 31, 2011		
	Canadian GAAP	Effect of transition to IFRS	IFRS
Industrial mineral sales	$ 29,916	-	$ 29,916
Expenses:			
Depletion and depreciation	2,119	-	2,119
General and administrative	131,863	-	131,863
Production and operating	19,458	-	19,458
Share-based payments	22,740	-	22,740
	176,180	-	176,180
(Loss) from operations	(146,264)	-	(146,264)
Interest income	10,656	-	10,656
(Loss) before income taxes	(135,608)	-	(135,608)
Income tax recovery	32,800	-	32,800
Net (loss) and comprehensive (loss) for the period	$ (102,808)	-	$ (102,808)

(b) Exploration and evaluation assets

The company has elected to adopt the provision of IFRS 6 which allows the company to continue with the current accounting policies regarding the accounting for exploration and evaluation expenditures. Under Canadian generally accepted accounting principles the company capitalized expenditures relating to exploration and evaluation activities to the carrying value of its exploration and evaluation assets.

(c) Financial statement presentation changes

The transition to IFRS has resulted in the contributed surplus account on the statement of financial position to be renamed to share-based payments reserve to specifically reflect the transactions that gave rise to its existence.

(d) Cash flow statement

The adoption of IFRS has had no impact on the net cash flows of the company. The changes made to the statements of financial position and statements of operations and comprehensive loss have resulted in minor reclassifications of various amounts on the statement of cash flows; however, as there have been no changes to the net cash flows, no reconciliation's have been presented.