Linear Metals Corporation
(A Development Stage Enterprise)

Consolidated Financial Statements
October 31, 2011 and 2010

January 27, 2012

Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of **Linear Metals Corporation** have been prepared by the Company's management. The financial statements have been prepared in accordance with accounting principles generally accepted in Canada and contain estimates based on management's judgment. Internal control systems are maintained by management to provide reasonable assurances that assets are safeguarded and financial information is reliable.

The Board of Directors of the Company is responsible for ensuring that management fulfils its responsibilities for financial reporting and is ultimately responsible for reviewing and approving the consolidated financial statements and the accompanying management discussion and analysis. The Board carries out this responsibility principally through its Audit Committee.

The Audit Committee is appointed by the Board and a majority of its members are independent directors. It meets with the Company's management and auditors and reviews internal control and financial reporting matters to ensure that management is properly discharging its responsibilities before submitting the financial statements to the Board of Directors for approval.

PricewaterhouseCoopers LLP, appointed as the Company's auditors by the shareholders, has examined these consolidated financial statements and their report follows.

(signed) "*Brian MacEachen*"
Chief Executive Officer
Halifax, Nova Scotia

(signed) *"Keith Abriel"*
Chief Financial Officer
Halifax, Nova Scotia

January 27, 2012

Independent Auditor's Report

To the Shareholders of
Linear Metals Corporation

We have audited the accompanying consolidated financial statements of **Linear Metals Corporation** and its subsidiaries, which comprise the consolidated balance sheets as at October 31, 2011 and 2010 and the consolidated statements of operations, comprehensive loss and deficit and cash flows for the years then ended, and the related notes, which comprise a summary of significant accounting policies and other explanatory information.

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

Auditor's responsibility
Our responsibility is to express an opinion on these consolidated 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 audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe that the audit evidence we have obtained in our audits is sufficient and appropriate to provide a basis for our audit opinion.

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Linear Metals Corporation and its subsidiaries as at October 31, 2011 and 2010 and the results of their operations and their cash flows for the years then ended in accordance with Canadian generally accepted accounting principles.

Emphasis of matter
Without qualifying our opinion, we draw attention to note 1 of the consolidated financial statements which describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about Linear Metals Corporation's ability to continue as a going concern.

(signed) "*PricewaterhouseCoopers LLP*"

Chartered Accountants

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Linear Metals Corporation

(A Development Stage Enterprise)

Consolidated Balance Sheets

As at October 31, 2011 and 2010

(in Canadian dollars)

	2011 $	2010 $
Assets		
Current assets		
Cash and cash equivalents	1,116,532	283,682
Accounts receivable and sales taxes recoverable	66,314	38,762
Prepaid expenses and deposits	105,582	31,392
	1,288,428	353,836
Property and equipment (note 5)	42,215	51,539
Resource properties (note 6)	11,473,096	9,854,275
	12,803,739	10,259,650
Liabilities		
Current liabilities		
Accounts payable and accrued liabilities	946,659	216,438
Future income taxes (note 10)	504,000	666,000
	1,450,659	882,438
Shareholders' Equity		
Capital stock (note 7)	19,863,607	17,818,195
Warrants (note 8)	295,978	–
Contributed surplus (note 9)	3,744,131	3,413,688
Deficit	(12,550,636)	(11,854,671)
	11,353,080	9,377,212
	12,803,739	10,259,650

Nature of operations and going concern (note 1)

Commitments (note 11)

The accompanying notes form an integral part of these financial statements.

On behalf of the Board of Directors

(signed) "*Wade K. Dawe*"
Director

(signed) *"Mark Welton"*
Director

Linear Metals Corporation
(A Development Stage Enterprise)
Consolidated Statements of Operations, Comprehensive Loss and Deficit
For the years ended October 31, 2011 and 2010

(in Canadian dollars)

	2011 $	2010 $
Expenses		
Amortization	11,822	20,936
Banking fees	718	994
General and administrative	67,436	68,130
Investor relations and marketing	18,399	25,890
Listing and regulatory costs	51,228	40,185
Management salaries and services	219,173	217,450
Professional services	95,250	54,205
Stock-based compensation (note 7)	290,767	290,804
Travel	114,769	38,053
Write-down of resource properties (note 6)	–	15,514
	869,562	772,161
Other income (expenses)		
Gain (loss) on disposal of equipment	8,169	(12,300)
Foreign exchange gain (loss)	3,228	(8)
Interest income	200	3,904
	11,597	(8,404)
Loss before income taxes	(857,965)	(780,565)
Recovery of future income taxes (note 10)	162,000	107,000
Net loss and comprehensive loss for the years	(695,965)	(673,565)
Deficit – beginning of years	(11,854,671)	(11,181,106)
Deficit – end of years	(12,550,636)	(11,854,671)
Loss per share – basic and diluted	(0.01)	(0.01)
Weighted average number of common shares outstanding	55,346,167	53,000,193

The accompanying notes form an integral part of these financial statements.

Linear Metals Corporation
(A Development Stage Enterprise)
Consolidated Statements of Cash Flows
For the years ended October 31, 2011 and 2010

(in Canadian dollars)

	2011 $	2010 $
Cash and cash equivalents provided by (used in)		
Operating activities		
Net loss for the years	(695,965)	(673,565)
Charges (credits) to income not involving cash		
Amortization	11,822	20,936
Stock-based compensation	290,767	290,804
(Gain) loss on disposal of equipment	(8,169)	12,300
Write-down of resource properties	–	15,514
Recovery of future income taxes	(162,000)	(107,000)
	(563,545)	(441,011)
Net change in non-cash working capital balances related to operations		
Decrease (increase) in accounts receivable and sales taxes recoverable	2,513	5,141
Decrease (increase) in prepaid expenses and deposits	(74,190)	1,902
Increase (decrease) in accounts payable and accrued liabilities	236,425	48,433
	(398,797)	(385,535)
Cash provided by financing activities		
Common shares issued for cash, net of issuance costs	1,977,052	–
Warrants issued for cash, net of issuance costs	276,839	–
Debt financing provided by directors of the Company (note 13)	300,000	–
Cash repayment of debt financing (note 13)	(212,500)	–
	2,341,391	–
Cash used in investing activities		
Resource property interests and options, net	(1,063,633)	(480,971)
Sales taxes recoverable related to resource property interests	(45,064)	(2,552)
Purchase of equipment	(9,216)	(3,489)
Proceeds on disposal of equipment	8,169	–
	(1,109,744)	(487,012)
Net change in cash and cash equivalents during the years	832,850	(872,547)
Cash and cash equivalents – beginning of years	283,682	1,156,229
Cash and cash equivalents – end of years	1,116,532	283,682
Cash and cash equivalents		
Cash on hand and balances with banks	1,116,532	69,135
Short-term investments	–	214,547
	1,116,532	283,682
Supplemental information		
Interest received during the years	200	3,904
Non-cash financing activities		
Common shares issued as a cost of financing (note 7)	29,053	–
Warrants issued as a cost of financing (note 7)	8,135	–
Shares issued as repayment of debt financing (note 13)	87,500	–

The accompanying notes form an integral part of these financial statements.

1 Nature of operations and going concern

Linear Metals Corporation (the "Company") was incorporated under the Canada Business Corporations Act on November 17, 2004. The Company is in the process of exploring its resource properties and has not yet determined whether these properties contain ore reserves that are economically recoverable. To date, the Company has not earned significant revenues and is considered to be a development stage company. The recoverability of the amounts shown for resource properties and related deferred costs is dependent upon the discovery of economically recoverable reserves, obtaining necessary financing and permitting to complete the development and future profitable production or proceeds from the disposition thereof.

These consolidated financial statements have been prepared using Canadian generally accepted accounting principles ("GAAP") applicable to a going concern, which contemplate the realization of assets and settlement of liabilities in the normal course of business as they come due. For the year ended October 31, 2011, the Company incurred a loss of approximately $0.7 million (2010 - $0.7 million) and as at October 31, 2011, had an accumulated deficit of approximately $12.6 million (2010 - $11.9 million). The Company has no income or cash flow from operations and, at October 31, 2011, had working capital of approximately $0.3 million (2010 - $0.1 million). In addition to its on-going working capital requirements, the Company must secure sufficient funding to maintain legal title to its resource properties, to fund its exploration and development activities and to fund its general and administrative costs. Such circumstances lend significant doubt as to the ability of the Company to meet it obligations as they come due and, accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

Management is evaluating alternatives to secure additional financing so that the Company can continue to operate as a going concern. Nevertheless, there is no assurance that these initiatives will be successful or sufficient.

The Company's ability to continue as a going concern is dependent upon its ability to fund its working capital and exploration requirements and eventually to generate positive cash flows, either from operations or sale of properties. These consolidated financial statements do not reflect the adjustments to the carrying values of assets and liabilities and the reported expenses and balance sheet classifications that would be necessary were the going concern assumption inappropriate and these adjustments could be material.

2 Significant accounting policies

The consolidated financial statements of the Company have been prepared in accordance with GAAP and, in management's opinion, within reasonable limits of materiality and within the framework of the significant accounting policies summarized below:

a) Basis of presentation

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, 6321593 Canada Inc., Linear Metals Corporation of Kenya Limited, and Linear Metal Corp. Mexico, S.A. de C.V. All inter-company transactions and balances have been eliminated on consolidation of the accounts. All amounts are expressed in Canadian dollars, unless otherwise noted.

b) Resource properties

As a development stage enterprise, the Company defers all expenditures related to its resource properties until such time as the properties are put into commercial production, sold, abandoned or considered to be impaired. Under this method, all amounts shown as resource properties represent costs incurred to date less amounts amortized, received from exploration partners and/or written off, and do not necessarily represent present or future values.

If the properties are put into commercial production, the expenditures will be depleted following the unit of production method. If the properties are sold or abandoned, or considered to be impaired in value, the expenditures will be charged to operations. The Company does not accrue the estimated future costs of maintaining its resource properties in good standing.

Resource properties are reviewed for impairment on a property by property basis whenever events or changes in circumstances indicate that the carrying amount of a resource property may not be recoverable. If the Company has sufficient information about a resource property to estimate future cash flows expected to be generated by the resource property, then recoverability is measured by a comparison of the carrying amount to the estimated cash flows. If the Company does not have sufficient information about the resource property to estimate future cash flows expected to be generated by the resource property, then the carrying amount is compared to the estimated fair value. If the carrying amount exceeds the estimated future cash flows or estimated fair value, the resource property will be written down to its estimated fair value. The ultimate recoverability of the amounts capitalized for the resource properties is dependent upon the delineation of economically recoverable ore reserves, the Company's ability to obtain the necessary financing to complete their development and realize profitable production or proceeds from the disposition thereof.

Management's estimates of recoverability of the Company's investment in various projects have been based on current conditions; however, it is possible that changes could occur in the near term which could adversely affect management's estimates and may result in future write-downs of capitalized resource property carrying values. Conversely, properties which have been written down may represent future value to the Company in excess of management's estimates and/or the carrying value of the properties.

2 Significant accounting policies (continued)

c) Property option agreements

From time to time, the Company may acquire or dispose of an interest in a resource property pursuant to the terms of an option agreement. As the options are exercisable entirely at the discretion of the optionee, the amounts payable or receivable, in accordance with the terms of the options, are not recorded. Option payments are recorded as property costs or recoveries when the payments are made or received.

d) Management estimates

The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amount of revenues and expenses during the period. Actual results may differ from those estimates.

e) Cash equivalents

Cash equivalents consist of highly liquid investments which are readily convertible into cash with maturities of three months or less when purchased.

f) Future income taxes

The Company uses the liability method of accounting for income taxes. Under this method, current income taxes are recognized for the estimated income taxes payable for the current year. Future income tax assets and liabilities are recognized for temporary differences between the tax and accounting bases of assets and liabilities as well as for the benefit of losses available to be carried forward to future years for tax purposes. Future tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. The effect on future tax assets and liabilities of changes in tax rates is recognized in income in the period that includes the date substantively enacted tax rates will be effective. If the realization is not considered more likely than not, a valuation allowance is provided against the future income tax assets.

g) Flow-through shares

The issuance of flow-through shares entitles the Company to renounce certain resource expenditures incurred in Canada, allowing the expenditures to be deducted for tax purposes by the investors who purchased the flow-through shares. The Company has adopted the recommendations by the Emerging Issues Committee (“EIC”) of the Canadian Institute of Chartered Accountants (“CICA”) relating to the recording of flow-through shares. In accordance with EIC 146, the Company reduces its share capital and recognizes a temporary future income tax liability for the amount of income tax benefits foregone when the resource expenditures are renounced. If the Company has a sufficient amount of unused income tax losses carried forward to offset the renounced tax deduction, the realization of the deductible temporary difference is recognized as a recovery of previously unrecognized future income tax assets on the statement of operations.

2 Significant accounting policies (continued)

h) Related party transactions

Unless otherwise disclosed herein, all transactions with related parties are in the normal course of business and are measured at the exchange amount.

i) Property and equipment

Property and equipment are recorded at cost less accumulated amortization. Amortization is calculated using the declining-balance method at the annual rate of 30% for office equipment, exploration equipment and software.

j) Loss per share

Loss per share is computed based on the weighted average number of common shares outstanding during the years. Diluted loss per share is equal to loss per share since the exercise of options and warrants is anti-dilutive.

k) Foreign currency translation

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at exchange rates in effect at the balance sheet date for monetary items and at exchange rates prevailing at the transaction dates for non-monetary items. Revenues and expenses are translated at the average exchange rates prevailing during the years except for expenses that relate to non-monetary assets or liabilities, which are translated at the same historical exchange rate as the related asset or liability. Gains and losses on translation are included in the determination of loss for the years.

l) Stock-based compensation

The Company accounts for stock options using the fair value method of the CICA Handbook Section 3870, *Stock-based Compensation and Other Stock-based Payments*. Under this Section, the estimated fair values of all stock options granted are recorded in operations over their vesting periods.

The estimated fair value of options is estimated using the Black-Scholes option pricing model that takes into account, as of the grant date, the exercise price, the expected life of the option, the current price of the underlying stock and its expected volatility, expected dividends on the stock, and the risk-free interest rate over the expected life of the option. The resulting estimated fair values of the options are expensed or capitalized to resource properties on a straight-line basis over their vesting periods. Cash consideration received on exercise of options is credited to capital stock.

2 Significant accounting policies (continued)

m) Future accounting policies

International Financial Reporting Standards ("IFRS")

The Company will cease to prepare its financial statements in accordance with Canadian GAAP as set out in Part V of the CICA Handbook – Accounting for the periods beginning on or after November 1, 2011, when it will start to apply as its primary basis of accounting IFRS as published by the International Accounting Standards Board and set out in Part I of the CICA Handbook – Accounting. Consequently, future accounting changes to Canadian GAAP that are effective on or after November 1, 2011, are not discussed in these financial statements as they will never be applied by the Company.

3 Financial instruments

The Company recognizes financial instruments based on their classification. Depending on the financial instruments' classification, changes in subsequent measurements are recognized in net income (loss) or comprehensive income (loss).

If a financial instrument is measured at fair value, changes in its fair value shall usually be recognized in net income (loss) in the period in which the change occurs, with some exceptions, such as for cash flow hedges and available-for-sale investments. For investments designated as being available-for-sale, changes in the fair value shall be recorded directly in Shareholders' Equity in a separate account called "Other Comprehensive Income (Loss)" until the asset is disposed of or becomes impaired. At that time, the gains and losses are transferred to the Statement of Operations.

The Company has implemented the following classifications:

- Cash and cash equivalents are classified as "Financial Assets Held-for-Trading." These financial assets are marked-to-market through net income at each period end.

- Accounts receivable and convertible debt are classified as "Loans and Receivables." After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

- Accounts payable and accrued liabilities are classified as "Other Financial Liabilities." After their initial fair value measurement, they are measured at amortized cost using the effective interest method.

3 Financial instruments (continued)

a) Fair value

Fair value estimates of financial instruments are made at a specific point in time, based on relevant information about financial markets and specific financial instruments. As these estimates are subjective in nature, involving uncertainties and matters of significant judgment, they cannot be determined with precision. Changes in assumptions can significantly affect estimated fair values.

The carrying values of accounts receivable, accounts payable and accrued liabilities approximate their fair value because of the short-term nature of these instruments.

The CICA established a fair value hierarchy that prioritizes the inputs to valuation techniques used to measure fair value. The hierarchy gives the highest priority to unadjusted quoted prices in active markets for identical assets or liabilities and the lowest priority to unobservable inputs. The three levels of the fair value hierarchy are as follows:

Level 1: Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2: Inputs other than quoted prices that are observable for the asset or liability either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3: Inputs that are not based on observable market data

The financial instruments recorded at fair value on the consolidated balance sheet are cash and cash equivalents. They are measured using Level 1 of the fair value hierarchy.

b) Foreign currency rate risk

A portion of the Company's transactions occur in United States, Mexican and Kenyan currencies; accordingly, the related financial assets are subject to fluctuations in the respective exchange rates.

c) Concentration of credit risk

Management does not believe it is exposed to any significant concentration of credit risk except that a significant portion of its cash and cash equivalents are on deposit with a major Canadian chartered bank. All of the sales taxes recoverable are with either the government of Canada or the government of Mexico.

d) Liquidity risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. Cash and cash equivalents are held in bank accounts or interest-bearing instruments that can be converted to cash without penalty at any time and are recorded at fair value.

e) Interest rate risk

The Company has cash and cash equivalents and no interest-bearing debt; accordingly, the Company's interest income is susceptible to fluctuations in interest rates.

4 Capital management

The Company's capital structure consists of share capital, warrants and contributed surplus, which at October 31, 2011 totalled $23.9 million (October 31, 2010 - $21.2 million). The Company's objective when managing capital is to maintain adequate levels of funding to support the acquisition and exploration of resource properties and maintain the necessary corporate and administrative functions to facilitate these activities. This is done primarily through equity financing. Future financings are dependent on market conditions and there can be no assurance the Company will be able to raise funds in the future.

The Company invests all capital that is surplus to its immediate operational needs in short-term, highly-liquid, high-grade financial instruments.

There were no changes to the Company's approach to capital management during the year. The Company is not subject to externally imposed capital requirements.

5 Property and equipment

	2011			2010
	Cost $	**Accumulated amortization** $	**Net** $	**Net** $
Office equipment	75,062	56,156	18,906	25,909
Exploration equipment	87,272	68,463	18,809	25,630
Software	4,500	–	4,500	–
	166,834	124,619	42,215	51,539

During the year ended October 31, 2011, the Company capitalized amortization of $6,718 (2010 - $8,268) to resource properties.

6 Resource properties

For the year ended October 31, 2011

	Kenya	Canada			Mexico	
	Nyanza $	KM61 $	Seymour Lake $	Other $	La Morena $	Total $
Acquisition costs						
Balance, October 31, 2010	–	23,205	70,937	–	4,974	99,116
Incurred during the year	17,045	–	–	5,000	1,067	23,112
Balance, October 31, 2011	17,045	23,205	70,937	5,000	6,041	122,228
Deferred exploration costs						
Balance, October 31, 2010	–	8,344,287	1,089,086	–	321,786	9,755,159
Incurred during the year	1,233,010	7,412	7,687	–	397,600	1,645,709
Balance, October 31, 2011	1,233,010	8,351,699	1,096,773	–	719,386	11,400,868
	1,250,055	8,374,904	1,167,710	5,000	725,427	11,523,096
Proceeds from option payments	–	–	(50,000)	–	–	(50,000)
Balance, October 31, 2011	1,250,055	8,374,904	1,117,710	5,000	725,427	11,473,096

6 Resource properties (continued)

For the year ended October 31, 2010

	Canada			Mexico	
	KM61 $	Seymour Lake $	Other $	La Morena $	Total $
Acquisition costs					
Balance, October 31, 2009	22,440	70,937	–	–	93,377
Incurred during the year	765	–	15,514	4,974	21,253
Balance, October 31, 2010	23,205	70,937	15,514	4,974	114,630
Deferred exploration costs					
Balance, October 31, 2009	8,343,479	941,696	–	–	9,285,175
Incurred during the year	808	147,390	–	321,786	469,984
Balance, October 31, 2010	8,344,287	1,089,086	–	321,786	9,755,159
	8,367,492	1,160,023	15,514	326,760	9,869,789
Write-down of resource properties during the year	–	–	(15,514)	–	(15,514)
Balance, October 31, 2010	8,367,492	1,160,023	–	326,760	9,854,275

Kenya

On February 9, 2011, the Company reached an agreement with East African Pure Gold Limited (“EAPG”) and B&M Mining Company Limited (“B&M”) to earn up to an initial 80% interest in three mineral exploration concessions located in Kenya. Under the terms of the agreements, the Company can earn an 80% interest in the concessions by incurring exploration expenditures of US $4,000,000 and making cash payments to EAPG and B&M totalling US $300,000 over a four year period.

Canada

i) KM61

The Company holds a 100% interest in the KM61 property, which is a molybdenum-copper-silver prospect, located in northwestern Ontario, contiguous with the Seymour Lake project. The majority of the KM61 property, including the mineralized zone, is subject to a 0.5% net smelter royalty. Of the remaining claims on the KM61 property, certain portions are subject to a 3% net smelter royalty and the balance are not subject to any royalties. The Company can repurchase 50% of the 0.5% net smelter royalty for $250,000 and/or 50% of the 3% net smelter royalty for $1,000,000.

6 Resource properties (continued)

Canada (continued)

ii) Seymour Lake

The Company holds a 100% interest in the Seymour Lake property, which is a tantalum-lithium-beryllium prospect located in northwestern Ontario, in the Crescent Lake area of the Thunder Bay Mining District. Certain portions of the Seymour Lake property are subject to a 3% net smelter return royalty, of which 1.5% can be purchased by the Company for $1.0 million.

The Company has entered an agreement with Super Metals Mining Inc. ("Super Metals") (formerly Canadian Copper Core Inc.), pursuant to which the Company granted Super Metals the option to earn an initial 70% interest in the Seymour Lake Property, subject to a 4% net smelter royalty, 1% of which will be payable to the Company. Pursuant to the terms of the agreement, including amendments made subsequent to year end, in order to earn its 70% interest, Super Metals is required to incur exploration expenditures of CDN $3,000,000, make cash payments to the Company of $1,523,425 and issue the Company common shares of Super Metals valued at CDN $750,000 (or equivalent cash payments if Super Metals shares are not trading on a Canadian exchange when the share issuances, valued at $250,000 and $500,000, are due on May 2, 2013 and May 2, 2014, respectively) over a three-year period ending May 2, 2014. Super Metals' cash payment obligations include the redemption of a $250,000 debenture and $23,425 interest in July 2012. The debenture was issued to the Company in June 2011 and recorded at a value of $0 at October 31, 2011. The Company relinquished its conversion rights to the debenture subject to Super Metals repaying the principal and interest by July 15, 2012. The Company can also require Super Metals to deliver a bankable feasibility study to earn an additional 10% interest in the Seymour Lake Property. The agreement obligates Super Metals to incur $500,000 of eligible exploration expenditures on the property by May 2, 2012 and to make payments to the Company aggregating $773,425 by July 2012, including an initial payment of $375,000 due by January 30, 2012.

During the year ended October 31, 2011, cash payments of $50,000 were received from Super Metals pursuant to the agreement and were recorded as a reduction of Resource Properties.

iii) Canada – Other

On November 4, 2010, the Company entered into two separate option agreements to acquire up to a 100% interest, subject to certain net smelter royalties, in two early-stage exploration properties in Ontario, Canada by making payments and incurring exploration expenditures over a two year period.

Mexico

i) La Morena

The Company holds a 100% interest in the La Morena property, located in the state of Coahuila, Mexico.

7 Capital stock

a) Authorized

Unlimited number of common shares without par value.

b) Changes in the Company's issued common share capital during the years were as follows:

	Year ended October 31, 2011		Year ended October 31, 2010	
	Number	**Amount $**	**Number**	**Amount $**
Opening balance	53,000,193	17,818,195	53,000,193	17,818,195
Shares issued pursuant to private placements	9,482,083	2,200,928	–	–
	62,482,276	20,019,123	53,000,193	17,818,195
Less: Subscriptions receivable	(411,950)	(80,458)	–	–
Less: Share issue costs	–	(75,058)	–	–
Closing balance	62,070,326	19,863,607	53,000,193	17,818,195

c) Shares issued for cash

On October 28, 2011, the Company completed a non-brokered private placement financing of 6,000,000 units at a price of $0.25 per unit, for aggregate gross proceeds of $1,500,000. Each unit consisted of one common share and one-half of one common share purchase warrant. Each whole warrant entitles the holder to acquire one common share at a price of $0.35 until October 28, 2013. The expiry of the warrants may be accelerated by the Company if the Company's shares trade above $0.50 for twenty consecutive trading days. The value allocated to the common shares issued was $1,171,875, and the value allocated to the warrants was $328,125. Total costs associated with the private placement were $81,150, including cash paid for commissions of $37,187, legal and regulatory fees of $6,775 and 148,750 units issued as finder's fees valued at $37,188. The Company allocated $63,398 to the costs of issuing the common shares, including $29,053 of the value of the units issued as finder's fee, and $17,752 to the costs of issuing the warrants. Officers and directors of the Company subscribed for 350,000 of the units pursuant to the private placement. All subscriptions receivable were received subsequent to year-end.

On February 24, 2011, the Company completed a non-brokered private placement of 3,333,333 common shares at a price of $0.30 per share, for aggregate gross proceeds of $1,000,000. Share issuance costs to complete the financing were $11,660. Officers and directors of the Company subscribed for 1,666,666 common shares pursuant to the private placement.

7 Capital stock (continued)

d) Stock option plan

The Company has adopted a stock option plan (the "Plan"), providing the Board of Directors with the discretion to issue an equivalent number of options of up to 10% of the issued and outstanding share capital of the Company. Stock options are granted with an exercise price of not less than closing share price of the day preceding the date of grant.

The estimated fair value of options recognized has been estimated at the grant date using the Black-Scholes option pricing model. Option pricing models require the input of highly subjective assumptions, including the expected volatility. Changes in the assumptions can materially affect the fair value estimate, and therefore, the existing models do not necessarily provide a reliable estimate of the fair value of the Company's stock options. Weighted average assumptions used in the pricing model for the years ended October 31, 2011 and 2010 are as follows:

	2011	2010
Risk-free rate	1.48%	1.41%
Expected volatility of the Company's share price	142%	203%
Expected dividend yield	0%	0%
Expected life of each option	4.3 years	4.0 years
Weighted average grant date fair value per option		
Exercise price equal to stock price on date of grant	$0.25	$0.13
Exercise price exceeds stock price on date of grant	$0.26	–

Option activity for the years ended October 31:

	2011		2010	
	Number	Weighted average exercise price $	Number	Weighted average exercise price $
Opening balance	3,525,000	0.31	4,250,000	0.59
Granted	1,225,000	0.31	150,000	0.14
Expired/forfeited	(150,000)	0.40	(875,000)	1.65
Ending balance	4,600,000	0.31	3,525,000	0.31

7 Capital stock (continued)

e) Stock option plan

As at October 31, 2011, the Company had outstanding stock options entitling the holders to acquire additional common shares as follows:

Weighted average exercise price per share $	Number outstanding	Expiry date	Weighted average remaining contractual life (years)	Number exercisable
0.14	150,000	August 3,2015	3.76	75,000
0.15	2,425,000	August 24, 2014	2.82	2,425,000
0.27	250,000	November 8, 2015	4.02	62,500
0.28	200,000	October 21, 2014	2.98	130,000
0.30	775,000	June 7, 2016	4.61	–
0.40	200,000	August 3, 2016	4.76	–
1.00	600,000	January 31, 2013	1.25	450,000
0.31	4,600,000		3.10	3,142,500

As at October 31, 2011, 1,607,032 options were available for granting under the Plan (2010 - 1,775,019 options).

The estimated value of options earned during the year ended October 31, 2011 was $330,443 (2010 - $303,075). The Company capitalized $39,676 (2010 - $12,271) in non-cash stock-based compensation expense to resource properties with the balance of $290,767 (2010 - $290,804) charged to operations.

8 Warrants

a) Warrant activity for the year ended October 31, 2011 was as follows:

	2011		
	Number	Exercise price per warrant $	Amount $
Opening balance	–	–	–
Issued for cash (note 7(c))	3,000,000	0.35	328,125
Issued as cost of financing	74,375	0.35	8,135
Costs of financing	–	–	(17,752)
Subscriptions receivable	(205,975)		(22,530)
Closing balance	2,868,400	0.35	295,978

8 Warrants (continued)

b) Warrants outstanding as of October 31, 2011:

Expiry date	Number	Weighted average exercise price
October 28, 2013	2,868,400	$0.35

c) Fair value of warrants

The fair value of the warrants has been estimated using the Black-Scholes option pricing model. The weighted average assumptions used in the pricing model for each of the warrants granted during the year ended October 31, 2011 are as follows:

	2011
Risk free interest rate	1.09%
Expected volatility	125%
Expected dividend yield	0%
Expected life	2.0 years
Weighted average grant date fair value	$0.11

9 Contributed surplus

	$
Balance at October 31, 2009	3,363,613
Value of options earned and impact of warrants expired	50,075
Balance at October 31, 2010	3,413,688
Value of options earned	330,443
Balance at October 31, 2011	3,744,131

10 Income taxes

The following table reconciles the expected income taxes payable (recoverable) at the statutory income tax rate to the amounts recognized in the consolidated statements of operations and deficit for the years ended October 31, 2011 and 2010:

	2011 $	2010 $
Loss before income taxes	(857,965)	(780,565)
Income tax rate	26%	26%
Expected income tax recovery based on above rates	(223,000)	(203,000)
Effect of different tax rates in foreign jurisdictions	(1,000)	(1,000)
Non-deductible stock option expense	76,000	76,000
Change in valuation allowance	(344,000)	27,000
Other and permanent differences	330,000	(6,000)
Provision for (recovery of) income taxes	(162,000)	(107,000)
Provision for (recovery of) income taxes is comprised of:		
Future income taxes	182,000	(134,000)
Adjustment to valuation allowance	(344,000)	27,000
	(162,000)	(107,000)

The following reflects future income tax assets (liabilities) at October 31, 2011 and 2010:

	2011 $	2010 $
Future tax assets (liabilities)		
Non-capital losses carried forward	2,950,000	2,911,000
Deductible share issue costs	38,000	94,000
Accounting value of mineral resource properties in excess of tax value	(1,703,000)	(1,535,000)
Tax value of property and equipment and prepaid expenses in excess of accounting value	23,000	20,000
	1,308,000	1,490,000
Valuation allowance applied against future tax assets	(1,812,000)	(2,156,000)
Net future income tax asset (liability) recognized	(504,000)	(666,000)

10 Income taxes (continued)

The Company has accumulated losses for Canadian income tax purposes of approximately $3,548,000 which may be carried forward and used to reduce taxable income in future years. These losses expire as follows:

	$
Year ending October 31, 2027	85,000
2028	1,290,000
2029	672,000
2030	676,000
2031	825,000
	3,548,000

The Company has undeducted share issuance costs of approximately $146,000, which will be deducted from Canadian taxable income over the next four years. The Company has also incurred resource expenditures of approximately $4,922,000, which may be carried forward indefinitely and used to reduce Canadian taxable income in future years.

In addition, the Company has accumulated Mexican tax losses of approximately $7,265,000, which may be carried forward and used to reduce taxable income from Mexico in future years. These losses expire as follows:

	$
Year ending October 31, 2016	988,000
2017	2,857,000
2018	3,145,000
2019	275,000
	7,265,000

11 Commitments

The Company has a commitment in respect of its operating lease on its premises in Toronto, which expires on March 31, 2013. This commitment requires total payments, including estimated common expenses, over the next five years as follows:

	$
Year ending October 31, 2012	147,000
2013	55,000
2014	–
2015	–
2016	–
	202,000

The premises are currently sub-leased for gross rents of approximately $10,000 per month for the remaining term of the lease.

12 Segmented information

The Company conducts mineral operations in Canada and Mexico and is searching for mineral exploration opportunities worldwide. Since the Company is in the exploration stage, there is no segmented revenue or operating results to report. The Company's total assets are segmented geographically as follows:

					2011
	Corporate Canada $	**Mineral Operations Canada $**	**Mineral Operations Mexico $**	**Mineral Operations Kenya $**	**Total $**
Current assets	1,206,350	–	56,138	25,940	1,288,428
Property and equipment	23,406	9,385	4,868	4,556	42,215
Resource properties	–	9,497,614	725,427	1,250,055	11,473,096
	1,229,756	9,506,999	786,433	1,280,551	12,803,739

				2010
	Corporate Canada $	**Mineral Operations Canada $**	**Mineral Operations Mexico $**	**Total $**
Current assets	273,120	–	80,716	353,836
Property and equipment	25,909	13,392	12,238	51,539
Resource properties	–	9,527,515	326,760	9,854,275
	299,029	9,540,907	419,714	10,259,650

13 Related party transactions

During the year ended October 31, 2011, two directors of the Company provided debt financing of $300,000 in the form of demand loans, bearing interest at a rate of prime plus 2%. The loans were settled in full, including interest of $2,258, prior to October 31, 2011.

Officers and directors of the Company subscribed for 1,666,666 common shares pursuant to the private placement that was completed by the Company on February 24, 2011.

Officers and directors of the Company subscribed for 350,000 of the units pursuant to the private placement on October 28, 2011.

14 Subsequent events

Subsequent to the end of the year, the Company granted 1,250,000 incentive stock options to certain employees and consultants of the Company.

Also, the Company issued 949,658 common shares to African Queen Mines Limited ("AQ") in connection with a settlement agreement announced on November 28, 2011. The settlement agreement related to a dispute over certain mineral claims within the Nyanza Project and included the acquisition of certain project-related data by the Company from AQ for US$500,000, of which US$200,000 was paid through the issuance of 949,658 common shares of the Company. In December 2011, the Company paid US$150,000 to AQ and the remaining US$150,000 is due in December 2012.