LA IMPERIAL RESOURCES INC.

Consolidated Financial Statements

August 31, 2012

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DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS & BUSINESS ADVISORS

INDEPENDENT AUDITOR'S REPORT

To the Shareholders of La Imperial Resources Inc.

We have audited the accompanying consolidated financial statements of La Imperial Resources Inc., which comprise the consolidated statements of financial position as at August 31, 2012 and 2011 and September 1, 2010, and the consolidated statements of comprehensive loss, changes in equity, and cash flows for the years ended August 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's Responsibility for the Consolidated Financial Statements
Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal control as management determines is necessary to enable the preparation of consolidated financial statements that are free from material misstatement, whether due to fraud or error.

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 that 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 La Imperial Resources Inc. as at August 31, 2012 and 2011 and September 1, 2010, and its financial performance and its cash flows for the years ended August 31, 2012 and 2011, in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes matters and conditions that indicate the existence of a material uncertainty that may cast significant doubt about La Imperial Resources Inc.'s ability to continue as a going concern.

DMCL

DALE MATHESON CARR-HILTON LABONTE LLP
CHARTERED ACCOUNTANTS

Vancouver, Canada
December 21, 2012

LA IMPERIAL RESOURCES INC.
Consolidated Statements of Financial Position
Expressed in Canadian Dollars

	Notes	August 31, 2012 $	August 31, 2011 $ (Note 18)	September 1, 2010 $ (Note 18)
ASSETS				
Current assets				
Cash		6	6	-
Other receivables	5	773	4,473	7,868
Deposit	6	-	65,837	-
Total current assets		779	70,316	7,868
Non-current assets				
Restricted cash		5,750	5,750	5,750
Exploration and evaluation assets	7	1	1,197,549	1,093,979
Total assets		6,530	1,273,615	1,107,597
LIABILITIES AND SHAREHOLDERS' DEFICIT				
Current liabilities				
Bank overdraft		-	-	14
Trade and other payables	8	329,938	339,137	449,816
Unsecured advances	9	1,601,203	1,233,459	661,165
Due to related parties	10	-	61,000	61,000
Total current liabilities		1,931,141	1,633,596	1,171,995
Shareholders' deficit				
Share capital	11	1,441,788	1,441,788	1,441,788
Deficit		(3,366,399)	(1,801,769)	(1,506,186)
Total shareholders' deficit		(1,924,611)	(359,981)	(64,398)
Total liabilities and shareholders' deficit		6,530	1,273,615	1,107,597

Going concern (Note 1)
Contingencies (Note 12)

Approved by the Board of Directors:

"Marilyn Miller" Director *"Tena McEachen"* Director

The accompanying notes are an integral part of these consolidated financial statements.

LA IMPERIAL RESOURCES INC.

Consolidated Statements of Comprehensive Loss
Expressed in Canadian Dollars
For the Years Ended August 31,

	Notes	2012 $	2011 $ (Note 18)
General and administrative expenses			
Administrative fees		18,000	30,000
Consulting fees		5,000	1,500
Foreign exchange gain		-	(4,623)
Interest and bank charges		468	495
Interest expenses		161,580	107,201
Professional fees		42,328	39,622
Management fees		-	30,000
Office		15,911	16,315
Travel		7,156	2,138
Transfer and filing fees		10,234	12,935
Settlement of claims	15	-	60,000
Impairment of exploration and evaluation assets	7	1,303,953	-
Total loss and comprehensive loss for the year		(1,564,630)	(295,583)
Basic and diluted loss per share		(0.13)	(0.02)
Weighted average number of shares outstanding – basic and diluted		12,085,970	12,085,970

The accompanying notes are an integral part of these consolidated financial statements.

LA IMPERIAL RESOURCES INC.

Consolidated Statement of Changes In Equity
Expressed in Canadian Dollars

	Share Capital			
	Number #	Amount $	Deficit $	Total $
Balance, September 1, 2010 (Note 18)	12,085,970	1,441,788	(1,506,186)	(64,398)
Comprehensive loss for the year	-	-	(295,583)	(295,583)
Balance, August 31, 2011	12,085,970	1,441,788	(1,801,769)	(359,981)
Comprehensive loss for the year	-	-	(1,564,630)	(1,564,630)
Balance, August 31, 2012	12,085,970	1,441,788	(3,366,399)	(1,924,611)

The accompanying notes are an integral part of these consolidated financial statements.

LA IMPERIAL RESOURCES INC.

Consolidated Statements of Cash Flows
Expressed in Canadian Dollars
For the Years Ended August 31,

	2012 $	2011 $ (Note 18)
Operating activities:		
Net loss for the year	(1,564,630)	(295,583)
Non-cash interest	161,580	107,201
Impairment of exploration and evaluation assets	1,303,953	-
Other receivables	3,700	3,395
Deposit	65,837	(65,837)
Trade and other payables	(9,199)	(110,679)
Net cash used in operating activities	(38,759)	(361,503)
Financing activities		
Unsecured advances	145,164	465,093
Net cash provided by financing activities	145,164	465,093
Investing activities		
Exploration and evaluation assets	(106,405)	(103,570)
Net cash used in investing activities	(106,405)	(103,570)
Increase in cash	-	20
Cash (bank overdraft), beginning of the year	6	(14)
Cash, end of the year	6	6

The accompanying notes are an integral part of these consolidated financial statements.

1. GENERAL BUSINESS DESCRIPTION

La Imperial Resources Inc. (the "Company") was incorporated on October 4, 2004 under the Canada Business Corporations Act and its principal activity is the acquisition and exploration of mineral properties.

The Company is a reporting issuer in British Columbia, Alberta and Ontario and its shares are listed on the CNQ Stock Exchange under the symbol LAI.

The address of the Company's corporate office and principal place of business is 600-666 Burrard Street, Vancouver, British Columbia, Canada V6C 2X8.

The consolidated financial statements were prepared on a going concern basis in accordance with International Financial Accounting Standards ("IFRS"), with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of operations rather than through a process of forced liquidation. The Company has incurred losses since its inception and had an accumulated deficit of $3,366,399 at August 31, 2012. The Company's ability to continue as a going concern is dependent upon the ability of the Company to obtain financing and generate positive cash flows from its operations. Management of the Company does not expect that cash flows for the Company's operations will be sufficient to cover all of its operating requirements, financial commitments and business development priorities during the next twelve months. Accordingly, the Company expects that it will need to obtain further financing in the form of debt, equity or a combination thereof for the next twelve months. There can be no assurance that additional funding will be available to the Company, or, if available, that this funding will be on acceptable terms. These material uncertainties may cast significant doubt about the Company's ability to continue as a going concern.

The consolidated financial statements of the Company for the year ended August 31, 2012 were authorized for issue by the Board of Directors on December 21, 2012.

2. BASIS OF PREPARATION

Statement of compliance

These consolidated financial statements, including comparatives, were prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB") and Interpretation issued by the International Financial Reporting Interpretations Committee ("IFRIC").

The preparation of these consolidated financial statements resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian Generally Accepted Accounting Principles ("GAAP"). The accounting policies set out below have been applied consistently to all years presented in these consolidated financial statements. They also have been applied in preparing an opening IFRS statement of financial position at September 1, 2010 for the purposes of the transition to IFRS, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards (IFRS 1). The impact of the transition from GAAP to IFRS is explained in Note 18.

Basis of presentation

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

3. SIGNIFICANT ACCOUNT JUDGMENT, ESTIMATES AND ASSUMPTIONS

Significant estimates and assumptions

The preparation of financial statements in accordance with IFRS requires the Company to make estimates and assumptions concerning the future. The Company's management reviews these estimates and underlying assumptions on an ongoing basis, based on experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Revisions to estimates are adjusted for prospectively in the period in which the estimates are revised.

Estimates and assumptions where there is significant risk of material adjustments to assets and liabilities in future accounting periods include the recoverability of the carrying value of exploration and evaluation assets, fair value measurements for financial instruments, the recoverability and measurement of deferred tax assets, decommissioning, restoration and similar liabilities and contingent liabilities.

Significant judgments

The preparation of financial statements in accordance with IFRS requires the Company to make judgments, apart from those involving estimates, in applying accounting policies. The most significant judgments in applying the Company's financial statements include the going concern assumption, classification of expenditures as exploration and evaluation expenditures or operating expenses and the classification of financial instruments.

4. SIGNIFICANT ACCOUNTING POLICIES

Principles of Consolidation

These consolidated financial statements include the accounts of the Company and its 99.9% owned subsidiary, La Kathrina S.A. de Mexico ("La Kathrina"). Control exists when the Company has the power to govern the financial and operating policies of an entity so as to obtain benefits from its activities. Subsidiaries are included in the consolidated financial statements from the date control commences until the date control ceases.

All intra-company transactions, balances, income and expenses are eliminated in full on consolidation.

Interest income

Interest income is recognized as earned on an accruals basis using the effective interest method in the income statement.

Foreign Currency Translation

The financial statements are presented in Canadian dollars, which is the functional currency of the Company and its subsidiary.

Transactions in foreign currencies are initially recorded in the functional currency at the rate ruling at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies are retranslated at the spot rate of exchange ruling at the reporting date. All differences are taken to the statement of comprehensive income. Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate as at the date of the initial transaction. Non-monetary items measured at fair value in a foreign currency are translated using the exchange rates at the date when the fair value was determined.

4. SIGNIFICANT ACCOUNTING POLICIES, continued

Exploration and Evaluation Assets

The Company's exploration and evaluation assets are intangible assets relating to mineral rights acquired and exploration and evaluation expenditure capitalized in respect of projects that are at the exploration/pre-development stage.

No amortization charge is recognized in respect of exploration and evaluation assets. These assets are transferred to mine development assets in property, plant and equipment upon the commencement of mine development.

Exploration and evaluation expenditure in the relevant area of interest comprises costs which are directly attributable to:

- Acquisition;
- Surveying, geological, geochemical and geophysical;
- Exploratory drilling;
- Land maintenance;
- Sampling; and
- Assessing technical feasibility and commercial viability.

Exploration and evaluation expenditure related to an area of interest where the Company has tenure are capitalized as intangible assets and are initially recorded at cost less impairment.

Exploration and evaluation expenditure also includes the costs incurred in acquiring mineral rights, the entry premiums paid to gain access to areas of interest and amounts payable to third parties to acquire interests in existing projects. Capitalized costs, including general and administrative costs, are only allocated to the extent that those costs can be related directly to operational activities in the relevant area of interest.

All capitalized exploration and evaluation expenditure is assessed for impairment if facts and circumstances indicate that impairment may exist. In circumstances where a property is abandoned, the cumulative capitalized costs relating to the property are written off in the period.

Impairment of Non-Financial Assets

At the end of each reporting period, the carrying amounts of the Company's assets are reviewed to determine whether there is any indication that those assets are impaired. If any such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment, if any. The recoverable amount is the higher of fair value less costs to sell and value in use. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm's length transaction between knowledgeable and willing parties. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects current market assessments of the time value of money and the risks specific to the asset. If the recoverable amount of an asset is estimated to be less than its carrying amount, the carrying amount of the asset is reduced to its recoverable amount and the impairment loss is recognized in the profit or loss for the period. For an asset that does not generate largely independent cash inflows, the recoverable amount is determined for the cash generating unit to which the asset belongs.

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 to an amount that 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. A reversal of an impairment loss is recognized immediately in profit or loss.

4. SIGNIFICANT ACCOUNTING POLICIES, continued

Financial instruments

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

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

Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market and are subsequently measured at amortized cost. They are included in current assets, except for maturities greater than 12 months after the end of the reporting period. These are classified as non-current assets.

Held-to-maturity investments are non-derivative financial assets that have fixed maturities and fixed or determinable payments, and it is the Company's intention to hold these investments to maturity. They are subsequently measured at amortized cost. Held-to-maturity investments are included in non-current assets, except for those which are expected to mature within 12 months after the end of the reporting period.

Available-for-sale financial assets are non-derivative financial assets that are designated as available-for-sale or are not suitable to be classified as financial assets at fair value through profit or loss, loans and receivables or held-to-maturity investments and are subsequently measured at fair value. These are included in current assets. Unrealized gains and losses are recognized in other comprehensive income, except for impairment losses and foreign exchange gains and losses.

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

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

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

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

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

Interest-Bearing Loans and Other Borrowings

Interest-bearing loans and other borrowings are recognized initially at fair value less related transaction costs. Subsequent to initial recognition, interest-bearing borrowings are stated at amortized cost with any difference between cost and redemption value being recognized in profit or loss over the period of borrowings on an effective interest basis.

4. SIGNIFICANT ACCOUNTING POLICIES, continued

Provisions

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 amount recognized as a provision is the best estimate of the consideration required to settle the present obligation estimated at the end of each reporting period, taking into account the risks and uncertainties surrounding the obligation. Where a provision is measured using the cash flows estimated to settle the present obligation, its carrying amount is the present value of those cash flows. When some or all of the economic benefits required to settle a provision are expected to be recovered from a third party, the receivable is recognized as an asset if it is virtually certain that reimbursement will be received and the amount receivable can be measured reliably.

Share Capital

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share purchase options are recognized as a deduction from equity, net of any tax effects.

Income Taxes

Income tax on the profit or loss for the periods presented comprises current and deferred tax. Income tax is recognized in profit or loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity.

Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at year end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is provided using the liability method, providing for temporary differences between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting nor taxable profit, and differences relating to investments in subsidiaries, and associates to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the financial position reporting date applicable to the period of expected realization or settlement.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend.

Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

4. SIGNIFICANT ACCOUNTING POLICIES, continued

Earnings (Loss) Per Share

The Company presents basic and diluted earnings/loss per share data for its common shares, calculated by dividing the loss attributable to common shareholders of the Company by the weighted average number of common shares outstanding during the period. Diluted earnings/loss per share does not adjust the loss attributable to common shareholders or the weight average number of common shares outstanding when the effect is anti-dilutive.

Related party transactions

Parties are considered to be related if one party has the ability, directly or indirectly, to control the other party or exercise significant influence over the other party in making financial and operating decisions. Parties are also considered to be related if they are subject to common control, related parties may be individuals or corporate entities. A transaction is considered to be a related party transaction when there is a transfer of resources or obligations between related parties.

New Standards Not Yet Adopted

IFRS 9 – Financial Instruments, as issued in November 2009 and revised in October 2010 is required to be adopted by 2013, subject to confirmation by the International Accounting Standards Board. The standard addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 and divides all financial assets that are currently in the scope of IAS 39 into two classifications; amortized cost and those measured at fair value.

IFRS 10 – Consolidated Financial Statements builds on existing principles and standards and identifies the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent Corporation.

IFRS 11 – Joint Arrangements establishes the principles for financial reporting by entities when they have an interest in arrangements that are jointly controlled.

IFRS 12 – Disclosure of Interest in Other Entities provides the disclosure requirements for interests held in other entities including joint arrangements, associates, special purpose entities and other off balance sheet entities.

IFRS 13 – Fair Value Measurement defines fair value, requires disclosure about fair value measurements and provides a framework for measuring fair value when it is required or permitted within the IFRS standards.

IAS 28 – Investments in Associate and Joint Ventures revised the existing standard and prescribes the accounting for investments and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

Each of the new standards or amendments is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted, except for IFRS 9, Financial Instruments, which is effective for annual periods beginning on or after January 1, 2015. The Company has not yet completed its evaluation of the effect of adopting these standards on its consolidated financial statements.

5. OTHER RECEIVABLES

Other receivables consist of GST/HST receivables representing input tax credits arising from sales tax levied on the supply of goods purchased or services received in Canada.

Expressed in Canadian Dollars

6. DEPOSIT

The Company paid a deposit of $65,837 into the Supreme Court of British Columbia. This payment was pursuant to a garnishing order before judgment issued by the Supreme Court of British Columbia stemming from litigation brought forth against the Company by a former director to recover fees for consulting services and reimbursable expenses. During the year ended August 31, 2012, the claim was settled (see Note 15).

7. EXPLORATION AND EVALUATION ASSETS

	Uruachi Mexico
Balance, September 1, 2010	$ 1,093,979
Additions:	
Consulting	5,000
Legal	3,070
Taxes	95,500
Balance, August 31, 2011	1,197,549
Additions:	
Consulting	30,410
Legal	3,618
Taxes	72,377
Impairment	(1,303,953)
Balance , August 31, 2012	$ 1

Uruachi Concessions - Chichuahua, Mexico

State of Chichuahua, Mexico

On November 8, 2006, the Company acquired 99.9% of the outstanding common shares of La Kathrina in consideration for the issuance of 6,000,000 common shares at $0.01 per share, for a total payment of $60,000. La Kathrina has a 70% interest in six mining concessions covering 12,959 hectares in the State of Chichuahua, Mexico.

During the year ended August 31, 2012, the Company determined that the recoverable value of the property was impaired, and recognized an impairment provision of $1,303,953.

8. TRADE AND OTHER PAYABLES

	August 31, 2012	August 31, 2011	September 1, 2010
Trade payables	$ 311,938	$ 329,137	$ 438,816
Accrued liabilities	18,000	10,000	11,000
Total	$ 329,938	$ 339,137	$ 449,816

9. UNSECURED ADVANCES

During the year ended August 31, 2012, the Company received $145,164 (2011 - $465,093) in cash advances from various formerly related and unrelated parties. These amounts are unsecured and have no specified terms of repayment. Certain of the advances bear interest at 12% per annum. At August 31, 2012, a total of $1,601,203 (2011 - $1,233,459; September 1, 2010 - $661,165) is owing to the lenders.

Expressed in Canadian Dollars

10. RELATED PARTY TRANSACTIONS

As at August 31, 2012, the Company did not owe any amounts to related parties. A total of $61,000 was owed to former related parties at August 31, 2011 (September 1, 2010 - $61,000) for services and advances provided. These amounts are unsecured, non-interest bearing and have no fixed terms of repayment.

During the year ended August 31, 2012, the Company incurred $Nil (2011 - $1,500; 2010 - $400) in consulting fees for services provided by former directors and officers of the Company.

11. SHARE CAPITAL

Authorized, issued and outstanding common shares:
The authorized share capital of the Company consists of an unlimited number of common shares with no par value.

The following is a summary of changes in common shares from September 1, 2010 to August 31, 2012:

	Number of Shares	Issue Price
Balance, September 1, 2010, August 31, 2011 and 2012	12,085,970	$ 1,441,788

12. CONTINGENCIES

In November, 2011 a claim was asserted against the Company for unpaid fees of approximately $100,000. The Company filed a response disputing the claim in December 2011. The Company has accrued $54,107 towards this claim as at August 31, 2012. The claim remains unsettled and to date the outcome cannot be determined.

13. SEGMENT REPORTING

Operating segments
The Company operates in a single reportable operating segment – the acquisition, exploration and development of exploration and evaluation assets.

Geographic segments
At August 31, 2012 and 2011 all of the Company's exploration and evaluation assets are located in Mexico.

14. INCOME TAXES

A reconciliation of income taxes at statutory rates is as follows:

	August 31, 2012 $	August 31, 2011 $
Net loss for the year	(1,564,630)	(295,583)
Statutory tax rate	25.6%	26.5%
Expected income tax recovery	(401,588)	(78,329)
Net adjustment for amortization, deductible and non-deductible amounts	50,072	-
Unrecognized benefit of non - capital losses	351,516	78,329
Total income taxes	-	-

Expressed in Canadian Dollars

14. INCOME TAXES, continued

The significant components of the Company's deferred income tax assets are as follows:

	August 31, 2012 $	August 31, 2011 $
Deferred income tax assets (liabilities):		
Exploration and evaluation assets	137,744	(148,604)
Equipment	-	55,946
Non-capital loss carry forwards	537,766	416,651
Valuation allowance	(675,510)	(323,993)
Net deferred tax assets	-	-

The following is a schedule of the Company's aggregate non-capital losses available to reduce taxable income in Canada in future years, expiring between 2027 and 2032 as follows. The Company has not recognized any deferred benefits for these tax losses, as it is not considered likely that they will be utilized:

Year of Expiration	Non-Capital Loss $
2027	72,598
2028	867,564
2029	430,857
2031	519,366
2032	260,677
	2,151,062

15. SETTLEMENT OF CLAIM

During fiscal 2011, a former director of the Company filed a civil claim against the Company, suing for unpaid consulting fees and reimbursable expenses. During fiscal 2012, the plaintiff and the Company agreed to a settlement for a total of $60,000 all-inclusive, with final settlement to occur when the plaintiff enters a consent dismissal order in the litigation and payment is made. During the course of the litigation, the Supreme Court of British Columbia issued a garnishing order before judgment, ordering the Company to pay a $65,836 deposit into court, including damages sought and court fees for issuance of the garnishing order (see Note 6). During the year, the final settlement of $60,000 was paid, and a consent dismissal order was issued by the plaintiff.

Expressed in Canadian Dollars

16. FINANCIAL RISK AND CAPITAL MANAGEMENT

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

Credit risk
Credit risk is the risk of loss associated with counterparty's inability to fulfill its payment obligations. The Company believes it has no significant credit risk.

Liquidity risk
Liquidity risk is the risk that the Company will not be able to pay financial instrument liabilities as they come due. The Company currently does not have sufficient capital in order to meet short-term business requirements, after taking into account the Company's holdings of cash. The Company's cash is invested in bank accounts which are available on demand. As a result, liquidity risk is assessed as high.

Interest rate risk
The Company's bank account earns interest income at variable rates. The fair value of its cash is relatively unaffected by changes in short-term interest rates. The Company's future interest income is exposed to short-term rates.

The Company has some advances which bear interest at a fixed rate and, thus, do not expose the Company to interest rate risk.

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

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

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

	Financial assets at fair value			
	Level 1	Level 2	Level 3	August 31, 2012
Held-for-trading financial asset				
Cash	$ 6	$ -	$ -	$ 6
Other receivable	-	773	-	773
Restricted cash	5,750	-	-	5,750
Total financial assets at fair value	$ 5,756	$ 773	$ -	$ 6,529

	Financial assets at fair value			
	Level 1	Level 2	Level 3	August 31, 2011
Held-for-trading financial asset				
Cash	$ 6	$ -	$ -	$ 6
Other receivable	-	4,473	-	4,473
Restricted cash	5,750	-	-	5,750
Total financial assets at fair value	$ 5,756	$ 4,473	$ -	$ 10,229

Expressed in Canadian Dollars

16. FINANCIAL RISK AND CAPITAL MANAGEMENT, continued

	Financial assets at fair value			
	Level 1	Level 2	Level 3	September 1, 2010
Held-for-trading financial asset				
Bank overdraft	$ (14)	$ -	$ -	$ (14)
Other receivable	-	7,868	-	7,868
Restricted cash	5,750	-	-	5,750
Total financial assets at fair value	$ 5,736	$ 7,868	$ -	$ 13,604

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

	August 31, 2012	**August 31, 2011**	**September 1, 2010**
Non-derivative financial liabilities:			
Trade and other payables	$ 311,938	$ 329,137	$ 438,816
Unsecured advances	1,601,203	1,233,459	661,165
Due to related parties	-	61,000	61,000
	$1,931,141	$1,633,596	$1,171,995

Capital Management

The Company's objectives when managing capital are to identify, pursue and complete the exploration and development of mineral properties, to maintain financial strength, to protect its ability to meet its on-going liabilities, to continue as a going concern, to maintain creditworthiness and to maximize returns for shareholders over the long term. The Company does not have any externally imposed capital requirements to which it is subject. Capital of the Company comprises all the components of shareholders' equity. There were no changes in the Company's approach to capital management during the year.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares.

17. COMPARATIVE FIGURES

Certain comparative figures have been reclassified to conform to current year's presentation.

18. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS")

The consolidated financial statements for the year ended August 31, 2012 are the Company's first financial statements prepared under IFRS. IFRS 1, First Time Adoption of International Financial Reporting Standards, requires that comparative financial information be provided. As a result the first date at which the Company has applied IFRS was September 1, 2010 (the "Transition Date"). IFRS 1 requires first-time adopters to retrospectively apply all effective IFRS standards as of the reporting date, which for the Company will be August 31, 2012. However, it also provides for certain optional exemptions and certain mandatory exceptions for first time IFRS adoption. Prior to transition to IFRS, the Company prepared its financial statements in accordance with Canadian GAAP.

In preparing the Company's opening IFRS financial statements, the Company has adjusted amounts reported previously in the financial statements prepared -in accordance with Canadian GAAP.

18. FIRST-TIME ADOPTION OF INTERNATIONAL FINANCIAL REPORTING STANDARDS ("IFRS"), continued

Initial elections upon adoption

Set forth below are the IFRS 1 applicable exemptions and exceptions applied in the conversion from Canadian GAAP to IFRS.

Business Combinations

The Company elected not to retrospectively apply IFRS 3 Business Combinations to any business combinations that may have occurred prior to its Transition Date and such business combinations have not been restated.

Share-based Payment Transactions

The Company has elected not to retrospectively apply IFRS 2 to equity instruments that were granted and had vested before the Transition Date. As a result of applying this exemption, the Company will apply the provisions of IFRS 2 only to all outstanding equity instruments that are unvested as at the Transition Date to IFRS.

Exploration and evaluation assets

The Company has elected to adopt the provisions of IFRS 6 which allow the Company to continue with the current accounting policies regarding the accounting for exploration and evaluation expenditures. Under Canadian GAAP the Company capitalizes amounts spent on exploration to the carrying value of its mineral properties.

Compound Financial Instruments

The Company has elected not to retrospectively separate the liability and equity components of compound instruments for which the liability component is no longer outstanding at the date of transition to IFRS.

Derecognition of Financial Assets and Liabilities

The Company has applied the derecognition requirements in IAS 39 Financial Instruments: Recognition and Measurement prospectively from the Transition Date. As a result any non-derivative financial assets or non-derivative financial liabilities derecognized prior to the Transition Date in accordance with Canadian GAAP have not been reviewed for compliance with IAS 39.

Estimates

IFRS 1 prohibits use of hindsight to create or revise previous estimates. The estimates the Company previously made under Canadian GAAP have not been revised for application of IFRS.

Reconciliations of Canadian GAAP to IFRS

The adoption of IFRS had no impact on the equity of the Company as at August 31, 2011 and September 1, 2010 and the comprehensive loss and cash flows for the year ended August 31, 2011 that were previously reported in accordance with Canadian GAAP.