**BROOKEMONT CAPITAL INC.**

CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

October 31, 2011

**BROOKEMONT CAPITAL INC.**
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION
Unaudited – Prepared by Management
(Expressed in Canadian Dollars)

| **ASSETS** | October 31, 2011 | July 31, 2011 (Note 16) | August 1, 2010 (Note 16) |
|---|---|---|---|
| **Current assets** | | | |
| Cash and cash equivalents – Note 5 | $ 382,066 | $ 11,921 | $ 274,976 |
| Receivables – Note 6 | 35,460 | 14,550 | 2,079 |
| Prepaid expenses and deposits | 56,113 | 1,762 | 333 |
| **Total current assets** | 473,639 | 28,233 | 277,388 |
| **Non-current assets** | | | |
| Equipment – Note 7 | 5,865 | 4,068 | 4,599 |
| Rent deposit | 6,475 | 6,475 | - |
| Exploration and evaluation assets – Note 8 | 3,688,408 | 2,903,359 | 1,419,226 |
| **Total assets** | $ 4,174,387 | $ 2,942,135 | $ 1,701,213 |
| **LIABILITIES** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities – Notes 9 and 13 | $ 73,807 | $ 142,289 | $ 53,552 |
| Interest payable – Note 10 | - | 2,375 | - |
| Loans payable – Note 10 | - | 160,000 | - |
| **Total current liabilities** | 73,807 | 304,664 | 53,552 |
| **Non-current liabilities** | | | |
| Flow-through share premium liability – Note 11 | 17,500 | - | - |
| **Total liabilities** | 91,307 | 304,664 | 53,552 |
| **SHAREHOLDERS' EQUITY** | | | |
| Share capital – Note 11 | 8,874,670 | 7,271,043 | 3,350,847 |
| Reserves – Note 11 | 686,641 | 461,530 | 400,831 |
| Accumulated deficit | (5,478,231) | (5,095,102) | (2,104,017) |
| **Total shareholders' equity** | 4,083,080 | 2,637,471 | 1,647,661 |
| **Total liabilities and shareholders' equity** | $ 4,174,387 | $ 2,942,135 | $ 1,701,213 |

Subsequent Events (Note 15)
Commitment (Note 18)

APPROVED BY THE DIRECTORS:

*"Conrad Clemiss"* Director *"James Nelson"* Director
Conrad Clemiss James Nelson

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

**BROOKEMONT CAPITAL INC.**
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
Unaudited – Prepared by Management
(Expressed in Canadian Dollars)
for the three months ended October 31, 2011 and 2010

| | Three months ended October 31, 2011 | Three months ended October 31, 2010 |
|---|---|---|
| **Expenses** | | |
| Bank charges | $ 492 | $ 292 |
| Consulting | 110,307 | 56,388 |
| Depreciation | 237 | 230 |
| Management fees – Note 13 | 37,733 | 40,334 |
| Office and miscellaneous | 12,116 | 11,785 |
| Professional fees | 20,778 | 6,277 |
| Shareholder information | 13,880 | 10,593 |
| Share-based payments – Notes 11 and 13 | 181,199 | 34,107 |
| Transfer agent and filing fees | 4,462 | 5,505 |
| Travel and promotion | 1,442 | 2,869 |
| | (382,646) | (168,380) |
| **Other income (expenses):** | | |
| Interest income | 290 | 465 |
| Interest expense | (773) | - |
| | (483) | 465 |
| **Net loss and total comprehensive loss for the period** | $ (383,129) | $ (167,915) |
| Loss per share – basic and diluted – Note 12 | $ (0.008) | $ (0.006) |
| Weighted average number of shares outstanding – basic and diluted – Note 12 | 49,755,464 | 28,355,430 |

**BROOKEMONT CAPITAL INC.**
CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS
Unaudited – Prepared by Management
(Expressed in Canadian Dollars)
for the three months ended October 31, 2011 and 2010

| | Three months ended October 31, 2011 | Three months ended October 31, 2010 |
|---|---|---|
| **Operating Activities** | | |
| Loss for the period | $ (383,129) | $ (167,915) |
| Adjustments for non-cash items: | | |
| Depreciation | 237 | 230 |
| Share-based payments | 181,199 | 34,107 |
| Changes in non-cash working capital items: | | |
| Receivables | (20,910) | (13,642) |
| Prepaid expenses | (54,351) | (3,868) |
| Interest expense | 773 | - |
| Accounts payable and accrued liabilities | (72,482) | (10,729) |
| **Cash used in operating activities** | (348,663) | (161,817) |
| **Investing Activities** | | |
| Equipment | (2,034) | - |
| Exploration and evaluation assets | (781,049) | (20,774) |
| Deferred acquisition costs | - | (92,230) |
| **Cash used in investing activities** | (783,083) | (113,004) |
| **Financing Activities** | | |
| Proceeds from issuance of share capital | 1,734,000 | 162,582 |
| Interest paid | (3,148) | - |
| Share issue costs | (68,961) | - |
| Loan repayment | (160,000) | - |
| **Cash provided by financing activities** | 1,501,891 | 162,582 |
| Increase (decrease) in cash during the period | 370,145 | (112,239) |
| Cash and cash equivalents, beginning of the period | 11,921 | 274,976 |
| **Cash and cash equivalents, end of the period – Note 5** | $ 382,066 | $ 162,737 |

Supplemental Disclosure with Respect to Cash Flows (Note 17)

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

**BROOKEMONT CAPITAL INC.**

CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

Unaudited – Prepared by Management

(Expressed in Canadian Dollars)

| | Share Capital | | | | |
|---|---|---|---|---|---|
| | **Number of shares** | **Amount** | **Reserves** | **Accumulated Deficit** | **Total** |
| **Balance, August 1, 2010** | 26,575,882 | $ 3,350,847 | $ 400,831 | $ (2,104,017) | $ 1,647,661 |
| Stock options exercised | 608,334 | 61,333 | - | - | 61,333 |
| Share purchase warrants exercised | 675,000 | 101,250 | - | - | 101,250 |
| Stock options issued | - | - | 34,107 | - | 34,107 |
| For resource property | 3,000,000 | - | - | - | - |
| Transfer of reserves on options exercised | - | 94,702 | (94,702) | - | - |
| Total comprehensive loss | - | - | - | (167,915) | (167,915) |
| **Balance, October 31, 2010** | 30,859,216 | 3,608,132 | 340,236 | (2,271,932) | 1,676,436 |
| Stock options exercised | 1,926,000 | 285,530 | - | - | 285,530 |
| Share purchase warrants exercised | 2,275,000 | 341,250 | - | - | 341,250 |
| Stock options issued | - | - | 306,970 | - | 306,970 |
| For resource property | 7,228,260 | 2,701,032 | - | - | 2,701,032 |
| Transfer of reserves on options exercised | - | 185,676 | (185,676) | - | - |
| For finance fees | 807,692 | 149,423 | - | - | 149,423 |
| Total comprehensive loss | - | - | - | (2,823,170) | (2,823,170) |
| **Balance, July 31, 2011** | 43,096,168 | 7,271,043 | 461,530 | (5,095,102) | 2,637,471 |
| Private placement | 8,849,999 | 1,345,000 | - | - | 1,345,000 |
| Share issue costs | 354,095 | (159,061) | 90,100 | - | (68,961) |
| Flow-through share premium liability | - | (17,500) | - | - | (17,500) |
| Stock options exercised | 650,000 | 104,000 | - | - | 104,000 |
| Share purchase warrants exercised | 1,900,000 | 285,000 | - | - | 285,000 |
| Stock options issued | - | - | 181,199 | - | 181,199 |
| Transfer of reserves on options exercised | - | 46,188 | (46,188) | - | - |
| Total comprehensive loss | - | - | - | (383,129) | (383,129) |
| **Balance, October 31, 2011** | 54,850,262 | $ 8,874,670 | $ 686,641 | $ (5,478,231) | $ 4,083,080 |

## 1. CORPORATE INFORMATION

Brookemont Capital Inc. (the "Company") was incorporated on March 28, 2007, under the British Columbia Company Act. The Company is an exploration stage public company and is listed on the TSX Venture Exchange under the symbol "BKT.V". The Company's principal business activities include acquiring and exploring mineral properties. At October 31, 2011, the Company has mineral property interests located in Canada and Tanzania.

The Company's head office and principal business address is Suite 1470, 701 West Georgia Street, Vancouver, British Columbia, V7Y 1C6. The Company's registered and records office is located at 800 – 885 West Georgia Street, Vancouver, British Columbia, V6C 3H1.

## 2. BASIS OF PREPARATION

a) Statement of Compliance

The financial statements of the Company for the year ended July 31, 2012 will be prepared in accordance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB"), having previously prepared its financial statements in accordance with pre-changeover Canadian Generally Accepted Accounting Principles ("pre-changeover Canadian GAAP"). These condensed consolidated interim financial statements for the three months ended October 31, 2011 have been prepared in accordance with International Accounting Standard 34 ("IAS34") Interim Financial Reporting, and as they are part of the Company's first IFRS annual reporting period, IFRS 1 First-time Adoption of International Reporting Standards has been applied.

As these condensed consolidated interim financial statements are the Company's first financial statements prepared using IFRS, certain disclosures that are required to be included in annual consolidated financial statements prepared in accordance with IFRS that were not included in the Company's most recent annual consolidated financial statements prepared in accordance with pre-changeover Canadian GAAP have been included in these consolidated financial statements for the comparative annual period. However, these condensed consolidated interim financial statements do not include all of the information required for full annual consolidated financial statements.

These condensed consolidated interim financial statements should be read in conjunction with the Company's 2011 annual consolidated financial statements and the explanation of how the transition to IFRS has affected the reported financial position, financial performance and cash flows of the Company provided in Note 16.

The condensed consolidated interim financial statements were authorized for issue by the Board of Directors on January 27, 2012.

## 2. BASIS OF PREPARATION (continued)

b) Basis of Measurement

These condensed consolidated interim financial statements have been prepared on the historical costs basis, except for certain financial instruments that have been initially measured at fair value.

The condensed consolidated interim financial statements are presented in Canadian dollars, which is also the Company's functional currency.

The preparation of these condensed consolidated interim financial statements in accordance with IFRS requires management to make estimates, judgements and assumptions that affect the reported amount of assets and liabilities and the 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 could differ from these estimates.

These condensed consolidated interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed consolidated interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and future periods if the revision affects both current and future periods. These estimates are based on historical experience, current and future economic conditions and other factors, including expectations of future events that are believed to be reasonable under the circumstances.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the financial position reporting date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

The recoverability of receivables, the estimated useful lives of equipment and the related depreciation, the carrying value and recoverability of exploration and evaluation assets, estimated accrued liabilities, and inputs used in accounting for share-based compensation.

c) Going Concern of Operations

The condensed consolidated interim financial statements have been prepared on a going concern basis, which contemplates continuity of normal business activities and the realization of assets and discharge of liabilities in the normal course of business. At October 31, 2011, the Company had a working capital of $399,832, had not yet achieved profitable operations and has accumulated deficit of $5,478,231 since its inception and expects to incur further losses in the development of its business, all of which cast substantial doubt on the Company's ability to continue as a going concern. The Company will require additional financing in order to conduct its planned work programs on mineral properties, meet its ongoing levels of corporate overhead and discharge its liabilities as they come due. While the Company has been successful in securing financings in the past, there is no assurance that it will be able to do so in the future. Accordingly, these financial statements do not give effect to adjustments, if any, that would be necessary should the Company be unable to continue as a going concern. If the going concern assumption was not

## 2. BASIS OF PREPARATION (continued)

c) Going Concern of Operations (continued)

used then the adjustments required to report the Company's assets and liabilities on a liquidation basis could be material to these financial statements.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below are expected to be adopted for the year ended July 31, 2012 and have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS balance sheet at August 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

### a) Basis of consolidation

These condensed consolidated financial statements included the accounts of the Company and the Company's wholly-owned subsidiary, 0854508 BC Ltd. ("BC Co"), incorporated under the Business Corporations Act of British Columbia. All inter-company transactions and balances are eliminated upon consolidation.

### b) Foreign currency transactions

Foreign currency accounts are translated into Canadian dollars, the functional currency of the Company and its subsidiary, as follows:

At the transaction date, each asset, liability, revenue and expense denominated in a foreign currency is translated into Canadian dollars by the use of the exchange rate in effect at that date. At the reporting period end date, unsettled monetary assets and liabilities are translated into Canadian dollars by using the exchange rate in effect at that date and the related translation differences are recognized in net income. Exchange gains and losses arising on the retranslation of monetary available-for-sale financial assets are treated as a separate component of the change in fair value and recognized in net income. Exchange gains and losses on non-monetary available-for-sale financial assets form part of the overall gain or loss recognized in respect of that financial instrument.

Non-monetary assets and liabilities that are measured at historical cost are translated into Canadian dollars by using the exchange rate in effect at the date of the initial transaction and are not subsequently restated.

### c) Cash and cash equivalents

Cash and cash equivalents includes cash on hand, demand deposits and highly liquid Canadian dollar investments in term deposits with major financial institutions that have maturities or redemption provisions of three months or less from the date of acquisition that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### d) Mineral properties – exploration and evaluation assets

*Pre-exploration costs*

Costs incurred prior to acquiring the right to explore an area of interest are expensed as incurred.

*Exploration and evaluation expenditures*

Once the legal right to explore a property has been acquired, costs directly related to exploration and evaluation expenditures are recognized and capitalized, in addition to the acquisition costs. These direct expenditures include such costs as material used, surveying costs, drilling costs, payments made to contractors and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed as incurred.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of comprehensive loss/income.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as “mines under construction”. Exploration and evaluation assets are also tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

### e) Equipment

Computer and office equipment is carried at cost less accumulated depreciation. The cost of an item of computer and office equipment consists of the purchase price and any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and, where appropriate, an estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Depreciation is recorded on a declining balance at the rate of 20% per annum. Depreciation is recorded at one-half rate in the year of acquisition.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**e) Equipment (continued)**

Items of computer and office equipment are derecognized upon disposal or when no future economic benefits are expected from their use or disposal. Any gain or loss arising on derecognition of the asset (calculated as the difference between the net disposal proceeds and the carrying amount of the asset) is included in profit or loss when the asset is derecognized.

The assets' residual values, useful lives and methods of depreciation are reviewed at each reporting period, and adjusted prospectively if appropriate.

**f) Impairment of tangible and intangible assets**

Tangible and intangible assets with finite useful lives are subject to impairment tests whenever events or changes in circumstances indicate that their carrying amount may not be recoverable. Where the carrying value of an asset exceeds its recoverable amount, which is the higher of value in use and fair value less costs to sell, the asset is written down accordingly.

Where it is not possible to estimate the recoverable amount of an individual asset, the impairment test is carried out on the assets' cash-generating unit, which is the lowest group of assets in which the asset belongs for which there are separately identifiable cash inflows that are largely independent of the cash inflows from other assets.

An impairment loss is charged to the profit or loss except to the extent it reverses gains previously recognized in other comprehensive loss/income. Where 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 recognized for the asset (or cash-generating unit) in prior periods. A reversal of an impairment loss is recognized in profit or loss.

**g) Rehabilitation provision**

The Company is subject to various government laws and regulations relating to environmental disturbances caused by exploration and evaluation activities. The Company records the present value of the estimated costs of legal and constructive obligations required to restore the exploration sites in the period in which the obligation is incurred. The nature of the rehabilitation activities includes restoration, reclamation and re-vegetation of the affected exploration sites.

The rehabilitation provision generally arises when the environmental disturbance is subject to government laws and regulations. When the liability is recognized, the present value of the estimated costs is capitalized by increasing the carrying amount of the related mining assets. Over time, the discounted liability is increased for the changes in present value based on current market discount rates and liability specific risks.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### g) Rehabilitation provision (continued)

Additional environment disturbances or changes in rehabilitation costs will be recognized as additions to the corresponding assets and rehabilitation liability in the period in which they occur.

The Company does not have any significant rehabilitation obligations.

### h) Financial instruments

Financial assets are classified into one of the following categories based on the purpose for which the asset was acquired. All transactions related to financial instruments are recorded on a trade date basis. The Company's accounting policy for each category is as follows:

***Financial assets at fair value through profit or loss ("FVTPL")***

A financial asset is classified at fair value through profit or loss if it is classified as held for trading or is designated as such upon initial recognition. Financial assets are designated as FVTPL if the Company manages such investments and makes purchase and sale decision based on their fair value in accordance with the Company's risk management strategy. Attributable transaction costs are recognized in profit or loss when incurred. FVTPL are measured at fair value, and changes are recognized in profit or loss.

***Held-to-maturity ("HTM")***

These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized costs using the effective interest method. If there is objective evidence that the asset is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized in profit or loss.

***Loans and receivables***

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

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**h) Financial instruments (continued)**

***Available-for-sale ("AFS")***

Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized in profit or loss.

The Company classified its financial assets as follows:

-Cash and cash equivalents are classified as FVTPL; and
-Receivables and other receivables are classified as loans and receivables.

***Financial liabilities***

Financial liabilities are classified into one of two categories:

-Fair value through profit or loss; and

-Other financial liabilities

***Fair value though profit or loss***

This category comprises derivatives, or liabilities, acquired or incurred principally for the purpose of selling or repurchasing it in the near term. They are carried in the statement of financial position at fair value with changes in fair value recognized in profit or loss.

***Other financial liabilities***

This category includes amounts due to related parties and accounts payable and accrued liabilities and long-term debt, all of which are recognized at amortized cost.

The Company classified its financial liabilities as follows:

-Accounts payable and accrued liabilities, interest payable, and loans payable are classified as other financial liabilities.

***Impairment of financial assets***

Financial assets, other than those at FVTPL, are assessed for indicators of impairment at the end of each reporting period. Financial assets are impaired when there is objective evidence that, as a result of one or more events that occurred after the initial recognition of the financial assets, the estimated future cash flows of the investments have been impacted.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)**

**h) Financial instruments (continued)**

***Impairment of financial assets (continued)***

For all financial assets objective evidence of impairment could include:

-significant financial difficulty of the issuer or counterparty; or
-default or delinquency in interest or principal payments; or
-it becoming probable that the borrower will enter bankruptcy or financial re-organization.

For certain categories of financial assets, such as receivables, assets that are assessed not to be impaired individually are subsequently assessed for impairment on a collective basis. The carrying amount of financial assets is reduced by impairment loss directly for all financial assets with the exception of receivables, where the carrying amount is reduced through the use of an allowance account. When a receivable is considered uncollectible, it is written off against the allowance account. Subsequent recoveries of amounts previously written off are credited against the allowance account. Changes in the carrying amount of the allowance account are recognized in profit or loss.

If, in a subsequent period, the amount of the impairment loss decreases and the decrease can be related objectively to an event occurring after the impairment was recognized, the previously recognized impairment loss is reversed through profit or loss to the extent that the carrying amount of the investment at the date of the impairment is reversed does not exceed what the amortized cost would have been had the impairment not been recognized.

**i) 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 it relates to a business combination, or items recognized directly in equity or in other comprehensive income.

Current income 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 adjustment to tax payable in respect of previous years.

The Company follows the asset and liability method of accounting for income taxes whereby deferred income tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred income tax assets and liabilities are measured using enacted or substantively enacted tax rates and laws expected to apply in the years in which temporary differences are expected to be recovered or settled. The effect of a change in tax rates on deferred income tax assets and liabilities is recognized in operations in the period that includes the substantive enactment date.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### i) Income taxes (continued)

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. To the extent that the Company does not consider it probable that a deferred tax asset will be recovered, it provides a valuation allowance against that excess.

### j) Flow-through shares

The Company will from time to time, issue flow-through common shares to finance a significant portion of its exploration program. Pursuant to the terms of the flow-through share agreements, these shares transfer the tax deductibility of qualifying resource expenditures to investors. On issuance, the Company bifurcates the flow-through share into i) a flow-through share premium, equal to the estimated premium, if any, investors pay for the flow-through feature, which is recognized as a liability; and ii) share capital. Upon expenses being renounced, the Company derecognizes the liability and the premium is recognized as other income.

Proceeds received from the issuance of flow-through shares are restricted to be used only for Canadian resource property exploration expenditures within a two-year period.

The Company may also be subject to a Part XII.6 tax on flow-through proceeds renounced under the Look-back Rule, in accordance with Government of Canada flow-through regulations. When applicable, this tax is accrued as a financial expense until paid.

### k) Investment tax credit

Investment tax credits are recorded as either a reduction of the cost of applicable assets or credited in the statement of comprehensive loss depending on the nature of the expenditures which gave rise to the credits. Claims for tax credits are accrued upon the Company attaining reasonable assurance of collections from the Canada Revenue Agency.

### l) Earnings (loss) per share

Basic earnings (loss) per share is calculated by dividing the net income or loss attributable to the common shareholders of the Company by the weighted average number of common shares outstanding during the reporting period. Diluted earnings (loss) per share is calculated by dividing the net income or loss applicable to common shares by the sum of the weighted average number of common shares issued and outstanding and all additional common shares that would have been outstanding if potentially dilutive instruments were converted.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### m) Share-based payments

The Company grants stock options to buy common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model and is recognized over the vesting period. Consideration paid for the shares on the exercise of stock options is credited to capital stock.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically indentified, they are measured at the fair value of the share-based payment.

### n) Accounting standards issued but not yet applied

The Company has reviewed new and revised accounting pronouncements that have been issued but are not yet effective. The Company has not early adopted any of these standards and is currently evaluating the impact, if any, that these standards might have on its financial statements.

Accounting Standards Issued and Effective January 1, 2012

IAS 12 – *Income Taxes (Amended)* ("IAS 12"), introduces an exception to the general measurement requirements of IAS 12 in respect of investment properties measured at fair value.

IFRS 7 – *Financial instruments: Disclosures (Amended*) requires additional disclosures on transferred financial assets.

Accounting Standards Issued and Effective January 1, 2013

IFRS 9 *Financial Instruments* replaces the current standard IAS 39 Financial Instruments: Recognition and Measurement, replacing the current classification and measurement criteria for financial assets and liabilities with only two classification categories: amortized cost and fair value.

IFRS 10 *Consolidated Financial Statements* establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. IFRS 10 supersedes IAS 39, *Financial Instruments: Recognition and Measurement*.

## 3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

### n) Accounting standards issued but not yet applied (continued)

IFRS 11 *Joint Arrangements* establishes the core principle that a party to a joint arrangement determines the type of joint arrangement in which it is involved by assessing its rights and obligations and accounts for those rights and obligations in accordance with that type of joint arrangement.

IFRS 12 *Disclosure of Involvement with Other Entities* requires the disclosure of information that enables users of financial statements to evaluate the nature of, and risks associated with, its interests in other entities and the effects of those interests on its financial position, financial performance and cash flows.

IFRS 13 *Fair Value Measurement* defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. IFRS 13 applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements (and measurements, such as fair value less costs to sell, based on fair value or disclosures about those measurements), except for: share-based payment transactions within the scope of IFRS 2 Share-based Payment; leasing transactions within the scope of IAS 17 Leases; measurements that have some similarities to fair value but that are not fair value, such as net realizable value in IAS 2 Inventories or value in use in IAS 36 Impairment of Assets.

IAS 27 *Separate Financial Statements* has the objective of setting standards to be applied in accounting for investments in subsidiaries, joint ventures, and associates when an entity elects, or is required by local regulations, to present separate (non-consolidated) financial statements.

IAS 28 *Investments in Associates and Joint Ventures* prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures. IAS 28 applies to all entities that are investors with joint control of, or significant influence over, an investee (associate or joint venture).

## 4. DISSOLUTION OF SUBSIDIARY

On August 28, 2009, the Company completed the acquisition of all of the outstanding shares of 0854508 BC Ltd., a private British Columbia company ("BC Co"). Consideration consisted of 5,000,000 common shares of the Company and $150,000 in cash. The Company also incurred $6,661 in legal expenses and the issue of 482,142 common shares for finders' fees. At the acquisition date, the assets of BC Co consisted of a 100% interest in mineral claims prospective for lithium, located in Northern Ontario, and quartz mineral claims located in Yukon Territory.

During the year ended July 31, 2011, the Company acquired the assets of BC Co and dissolved BC Co. The Company no longer has a subsidiary.

## 5. CASH AND CASH EQUIVALENTS

The Company's cash and cash equivalents at October 31, 2011 consisted of cash of $106,820 and cash equivalents of $275,246 (July 31, 2011 – cash of $11,921 and cash equivalents of $Nil; August 1, 2010 – cash of $39,236, cash equivalents of $230,000, and lawyer's trust account of $5,740).

The Company's cash and cash equivalents are denominated in Canadian Dollars and include the following components:

| | October 31, 2011 | July 31, 2011 | August 1, 2010 |
|---|---|---|---|
| Cash at bank and in hand | $ 106,820 | $ 11,921 | $ 39,236 |
| Short-term deposits | 275,246 | - | 230,000 |
| Lawyer's trust account | - | - | 5,740 |
| Cash and cash equivalents | $ 382,066 | $ 11,921 | $ 274,976 |

## 6. RECEIVABLES

The Company's receivables comprise solely of harmonized sales tax ("HST") / goods and services tax ("GST") receivables due from Canadian government taxation authorities.

| | October 31, 2011 | July 31, 2011 | August 1, 2010 |
|---|---|---|---|
| HST/GST recoverable | $ 35,460 | $ 14,550 | $ 2,079 |
| Total receivables | $ 35,460 | $ 14,550 | $ 2,079 |

All amounts are short-term and the net carrying value of receivables is considered a reasonable approximation of fair value. The Company anticipates full recovery of these amounts and therefore no impairment has been recorded against receivables. The Company's receivables are all considered current and are not past due or impaired. The Company does not possess any collateral related to these assets.

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## 7. EQUIPMENT

| | Computer and office equipment |
|---|---|
| Cost, August 1, 2010 | $ 5,219 |
| Additions | 432 |
| Cost, July 31, 2011 | 5,651 |
| Additions | 2,034 |
| Cost, October 31, 2011 | 7,685 |
| Accumulated depreciation, August 1, 2010 | 620 |
| Depreciation for the year | 963 |
| Accumulated depreciation, July 31, 2011 | 1,583 |
| Depreciation for the period | 237 |
| Accumulated depreciation, October 31, 2011 | $ 1,820 |
| Net book value, August 1, 2010 | $ 4,599 |
| Net book value, July 31, 2011 | $ 4,068 |
| Net book value, October 31, 2011 | $ 5,865 |

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## 8. EXPLORATION AND EVALUATION ASSETS

The Company's exploration and evaluation assets consist of the following mineral properties:

| | Canada | | | | | Tanzania | |
|---|---|---|---|---|---|---|---|
| | Ontario Lithium Claims | Yukon Quartz Claims | BC Cariboo Gold | BC Stewart Gold | Quebec Rare Earth | Handeni Gold | Total |
| Balance, August 1, 2010 | $ 293,695 | $ 696,286 | $ - | $ 266,000 | $ 163,245 | $ - | $ 1,419,226 |
| Cash | - | - | 15,000 | - | - | 335,463 | 350,463 |
| Filing and legal fees | 104 | - | 150 | - | - | 18,699 | 18,953 |
| Shares | - | - | 1,146,032 | 115,000 | - | 1,440,000 | 2,701,032 |
| Claim maintenance costs | - | 1,365 | - | 12,922 | - | - | 14,287 |
| Field equipment and supplies | - | - | - | - | - | 3,915 | 3,915 |
| Geological expenses | - | - | - | - | - | 77,920 | 77,920 |
| Lab and assay | - | - | - | - | - | 14,684 | 14,684 |
| Sampling | - | 7,718 | - | - | - | 12,726 | 20,444 |
| Travel, accommodation and misc | - | - | - | 500 | - | 94,109 | 94,609 |
| Advance for exploration | - | 13,000 | - | - | - | 24,229 | 37,229 |
| Write-down of mineral property | (293,799) | - | (1,161,182) | (394,422) | - | - | (1,849,403) |
| Balance, July 31, 2011 | - | 718,369 | - | - | 163,245 | 2,021,745 | 2,903,359 |
| Cash | - | - | - | - | 4,360 | - | 4,360 |
| Drilling | - | - | - | - | - | 12,238 | 12,238 |
| Geological expenses | - | - | - | - | - | 205,178 | 205,178 |
| Lab and assay | - | - | - | - | - | 44,021 | 44,021 |
| Sampling | - | 11,739 | - | - | - | 34,722 | 46,461 |
| Surveying | - | - | - | - | - | 48,950 | 48,950 |
| Travel, accommodation and misc | - | - | - | - | - | 61,307 | 61,307 |
| Advance for exploration | - | (13,000) | - | - | - | 375,534 | 362,534 |
| Balance, October 31, 2011 | $ - | $ 717,108 | $ - | $ - | $ 167,605 | $2,803,695 | $ 3,688,408 |

## 8. EXPLORATION AND EVALUATION ASSETS (continued)

Title to Mineral Property Interests

Title to mineral property interests involve certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mineral claims. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its interests are in good standing. However, this should not be construed as a guarantee of title. The concessions may be subject to prior claims, agreements or transfers, and rights of ownership may be affected by undetected defects.

Ontario Lithium Claims and Yukon Quartz Claims

As disclosed in Note 4, the Company acquired a 100% interest in claims located in Northern Ontario, and quartz mineral claims located in the Yukon Territory. The Company allocated 30% of the acquisition costs to the Ontario Lithium Claims and 70% of the acquisition costs to the Yukon Quartz Claims.

During the year ended July 31, 2011, the Company decided to abandon the Ontario lithium claims. Accordingly, the related acquisition costs of $293,799 were written off to operations.

As at October 31, 2011, the Company has spent a total of $31,821 in exploration expenditures on the Yukon Quartz Claims.

Property Purchase Agreement – British Columbia Cariboo Gold Prospect

By an agreement dated December 31, 2010, the Company entered into a property purchase agreement with an arm's length vendor (the "Vendor") to acquire a 100% interest in mineral claims located within the Cariboo Gold Region, British Columbia. In consideration, the Company paid $15,000 and issued 3,000,000 common shares to the Vendor. In addition, the Company also issued 228,260 common shares as a finder's fee. During the three months ended October 31, 2011, the Company decided not to renew the claims once they expired in October 2011 and the acquisition costs of $1,161,182 were written off as of July 31, 2011.

Option Agreement – British Columbia Stewart Gold Prospect

By an agreement dated October 2, 2009, the Company entered into an option agreement with an arm's length vendor (the "Vendor") to acquire a 100% interest in claims in the Stewart Mining Region of British Columbia. On November 3, 2010, the Company amended the option agreement with the Vendor. The Company agreed to issue 1,000,000 common shares and the Vendor waived the work commitment of $250,000 for the first year of the agreement. The property is subject to a 3% net smelter royalty, 1% of which may be purchased by the Company for $1,000,000.

Consideration was cash payments, exploration costs and the issue of common shares as follows:

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## 8. EXPLORATION AND EVALUATION ASSETS (continued)

Option Agreement – British Columbia Stewart Gold Prospect (continued)

| | Cash | Exploration Costs | Common Shares |
|---|---|---|---|
| Upon Exchange approval (paid and issued) | $ 25,000 | $ - | 1,200,000 |
| By November 3, 2010 (paid and issued) | 25,000 | - | 1,200,000 |
| By February 3, 2011 (issued) | - | - | 1,000,000 |
| By November 3, 2011 | - | 250,000 | - |
| | $ 50,000 | $ 250,000 | 3,400,000 |

During the three months ended October 31, 2011, the Company decided not to renew the claims once they expired in October 2011 and the acquisition costs of $381,000 and exploration costs of $13,422 were written off as of July 31, 2011.

Quebec Rare Earth Prospect

On June 2, 2010, the Company entered into an option agreement with an arm's length vendor (the "Vendor") to acquire a 100% interest in mineral claims in Quebec.

On May 25, 2011, the Company amended the option agreement with the Vendor. The Vendor agreed to waive the work commitment of $150,000 by June 17, 2011 until June 17, 2014, thus making the first level of spending commitment due by June 17, 2012.

Consideration is cash payments, exploration costs, and the issue of common shares as follows:

| | Cash | Common Shares | Exploration Costs |
|---|---|---|---|
| Upon Exchange approval (paid and issued) | $ 17,500 | 2,000,000 | $ - |
| By June 17, 2012 | - | - | 150,000 |
| By June 17, 2013 | - | - | 150,000 |
| By June 17, 2014 | - | - | 550,000 |
| | $ 17,500 | 2,000,000 | $ 850,000 |

In addition, the Company issued 195,000 common shares as a finder's fee.

During the three months ended October 31, 2011, the Company staked additional mineral claims adjacent to its previous claims in Quebec for a cost of $4,360.

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## 8. EXPLORATION AND EVALUATION ASSETS (continued)

Option Agreement – Handeni Gold, Tanzania

On September 3, 2010, the Company entered into a letter agreement with an arm's length vendor to acquire an 80% interest in a gold property located in the Handeni Region of Tanzania. Consideration is cash payments, exploration costs and the issue of common shares as follows:

| | Cash | Exploration Costs | Common Shares |
|---|---|---|---|
| Upon execution of the letter agreement (paid) | US$ 75,000 | US$ - | - |
| Upon closing date (issued and paid) | 200,000 | - | 3,000,000 |
| On or before February 21, 2012 (incurred) | - | 350,000 | - |
| On or before March 21, 2012 (shares issued) | 350,000 | - | 3,000,000 |
| On or before February 21, 2013 (incurred) | - | 500,000 | - |
| On or before February 21, 2013 | - | - | 3,000,000 |
| | US$ 625,000 | US$ 850,000 | 9,000,000 |

The Company will be able to acquire the remaining 20% interest by further payments of US$4,500,000 and the issuance of 3,000,000 common shares. This additional 20% interest will be subject to a 2% net smelter return and the foregoing payments for this interest may be made over a period of up to three years.

The Company paid a finder's fee to an arm's length party of $59,325, and the Company will pay a finder's fee of $71,875 in the second year following the closing date in connection with the transaction.

As at October 31, 2011, the Company has spent a total of $1,009,533 in exploration expenditures on this property.

## 9. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payable and accrued liabilities recognized in the statement of financial position can be analyzed as follows:

| | October 31, 2011 | July 31, 2011 | August 1, 2010 |
|---|---|---|---|
| Trade payables | $ 58,807 | $ 101,289 | $ 18,552 |
| Accrued liabilities | 15,000 | 41,000 | 35,000 |
| Total payables | $ 73,807 | $ 142,289 | $ 53,552 |

All amounts are short-term. The carrying value of trade payables and accrued liabilities is considered a reasonable approximation of fair value.

## 10. LOANS PAYABLE

In December 2010, the Company arranged a loan by three arm's length lenders for a total principal amount of $525,000, bearing 5% interest per annum and due on demand ($175,000 from each lender). As consideration, the Company issued 269,231 common shares to each lender for a total of 807,692 common shares valued at $149,423 as finance fees. As at October 31, 2011, $Nil (July 31, 2011: $160,000; August 1, 2010: $Nil) of principal and $Nil (July 31, 2011: $2,375; August 1, 2010: $Nil) of interest were to be repaid.

## 11. SHARE CAPITAL AND RESERVES

**Authorized:** An unlimited number of common shares, without par value

### (a) Private placement

In September 2011, the Company closed a private placement consisting of 8,499,999 non flow-through units at $0.15 per unit and 350,000 flow-through units at $0.20 per unit for gross proceeds of $1,345,000. Each non flow-through unit consists of one common share issued on a non flow-through basis and one transferable share purchase warrant. Each warrant associated with the non flow-through units will be exercisable at $0.25 per share into one common share for a period of five years from closing. Each flow-through unit consists of one common share issued on a flow-through basis and one transferable share purchase warrant. Each warrant associated with the flow-through units will be exercisable at $0.30 per share into one common share for a period of five years from closing. In connection with the financing, the Company paid aggregate finder's fees of $53,239 and issued 354,095 common shares with a value of $53,240 and 708,190 broker warrants. Each broker warrant will be exercisable at $0.25 per share into one common share for a period of five years from closing. A fair value of $90,100 was assigned to these broker warrants using the Black-Scholes pricing model with the following assumptions: dividend yield 0%, expected volatility 129.69%, risk-free interest rate 1.40% and an expected life of five years. The premium received on the flow-through shares issued was determined to be $17,500 and has been recorded as a share capital reduction.

### (b) Escrow shares

During the three months ended October 31, 2011, 300,000 shares were released from escrow. As at October 31, 2011, Nil (July 31, 2011: 300,000) shares were held in escrow.

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## 11. SHARE CAPITAL AND RESERVES (continued)

### (c) Share purchase warrants

The following is a summary of changes in share purchase warrants from August 1, 2010 to October 31, 2011:

| | Number | Weighted Average Exercise Price |
|---|---|---|
| Balance, August 1, 2010 | 9,993,000 | $0.30 |
| Exercised | (2,950,000) | $0.15 |
| Expired | (4,993,000) | $0.45 |
| Balance, July 31, 2011 | 2,050,000 | $0.15 |
| Issued | 9,558,189 | $0.25 |
| Exercised | (1,900,000) | $0.15 |
| Expired | (150,000) | $0.15 |
| Balance, October 31, 2011 | 9,558,189 | $0.25 |

At October 31, 2011, the Company had 9,558,189 share purchase warrants outstanding. Each warrant entitles the holder the right to purchase one common share as follows:

| Number | Exercise Price | Expiry Date |
|---|---|---|
| 9,208,189 | $0.25 | September 6, 2016 |
| 350,000 | $0.30 | September 6, 2016 |
| 9,558,189 | | |

### (d) Share-based payments

The Company has a Stock Option Plan ("the Plan") under which it is authorized to grant options to directors, officers, consultants or employees of the Company. The number of options granted under the Plan is limited to 10% in the aggregate of the number of issued and outstanding common shares of the Company at the date of the grant of the options. The exercise price of options granted under the Plan may not be less than the discounted market price of the Company's common shares at the date the options are granted. Options granted under the Plan have a maximum life of five years. The options generally vest on the date of grant, however, the board of directors may specify a vesting period on a grant-by-grant basis. Unless otherwise noted, all of the outstanding options vested when granted.

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## 11. SHARE CAPITAL AND RESERVES (continued)

### (d) Share-based payments (continued)

The following is a summary of changes in share purchase options from August 1, 2010 to October 31, 2011:

| | Number | Weighted Average Exercise Price |
|---|---|---|
| Outstanding, August 1, 2010 | 2,637,000 | $0.10 |
| Granted | 4,604,538 | $0.21 |
| Exercised | (2,534,334) | $0.14 |
| Expired | (2,023,038) | $0.21 |
| Forfeited | (200,000) | $0.18 |
| Outstanding and exercisable, July 31, 2011 | 2,484,166 | $0.18 |
| Granted | 2,550,000 | $0.16 |
| Exercised | (650,000) | $0.16 |
| Outstanding and exercisable, October 31, 2011 | 4,384,166 | $0.17 |

At October 31, 2011, 4,384,166 employee and director share purchase options were outstanding and exercisable entitling the holders thereof the right to purchase one common share for each option held as follows:

| Number | Exercise Price | Expiry Date |
|---|---|---|
| 1,536,000 | $0.22 | March 31, 2012 |
| 1,900,000 | $0.16 | September 14, 2012 |
| 133,333 | $0.10 | October 11, 2012 |
| 143,333 | $0.10 | April 1, 2014 |
| 187,500 | $0.11 | September 8, 2014 |
| 306,000 | $0.10 | October 9, 2014 |
| 120,000 | $0.13 | August 31, 2015 |
| 58,000 | $0.10 | October 11, 2017 |
| 4,384,166 | | |

* Subsequent to October 31, 2011, the Company amended the exercise price from $0.22 per share to $0.11 per share and increased the term to an expiry date of March 31, 2013 from March 31, 2012 on these 1,536,000 stock options. The Company has received both regulatory approval and disinterested shareholder approval for the above amendment.

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## 11. SHARE CAPITAL AND RESERVES (continued)

### (d) Share-based payments (continued)

During the three months ended October 31, 2011, the Company granted 2,550,000 stock options with an exercise price of $0.16 per share and an expiry date of September 14, 2012 (2010: 645,000 stock options at exercise prices ranging from $0.13 to $0.20 per share and expiry dates ranging from December 13, 2010 to August 31, 2015). The weighted average fair value of the options issued in the three months ended October 31, 2011 was estimated at $0.07 per option (2010 - $0.05) at the grant date using the Black-Scholes option pricing model with the following assumptions:

| | Three months ended October 31, 2011 | Three months ended October 31, 2010 |
|---|---|---|
| Weighted average fair value per option | $0.07 | $0.05 |
| Expected dividend yield | 0.0% | 0.0% |
| Expected volatility | 110.35% | 100.0 – 216.5% |
| Risk-free interest rate | 0.97% | 1.49 – 2.05% |
| Expected term in years | 1.0 years | 0.25 - 5.0 years |

Total expenses arising from share-based payment transactions recognized during the three months ended October 31, 2011 were $181,199 (2010: $34,107).

## 12. LOSS PER SHARE

The calculation of basic and diluted loss per share was based on the following data:

| | Three months ended October 31, 2011 | Three months ended October 31, 2010 |
|---|---|---|
| Net Loss | $ 383,129 | $ 167,915 |
| Weighted average number of common shares for the purpose of Basic and diluted loss per share | 49,755,464 | 28,355,430 |

The basic loss per share is computed by dividing the net loss by the weighted average number of common shares outstanding during the period. The diluted loss per share reflects the potential dilution of common share equivalents, such as stock options and share purchase warrants, in the weighted average number of common shares outstanding during the period, if dilutive. All of the stock options and share purchase warrants currently issued (see Note 11) were anti-dilutive for the three months ended October 31, 2011 and 2010.

The loss per share for the three months ended October 31, 2011 was $0.008 (2010: $0.006).

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## 13. RELATED PARTY TRANSACTIONS

*Key management personnel compensation*

Key management of the Company are directors and officers of the Company and their remuneration includes the following:

| | Three months ended October 31, 2011 | Three months ended October 31, 2010 |
|---|---|---|
| Management fees | $ 37,733 | $ 40,334 |
| Share-based payments * | 17,765 | - |
| | $ 55,498 | $ 40,334 |

***** Share-based payments are the fair value of options granted to key management personnel as at the grant date.

*Related party balances*

At October 31, 2011, accounts payable and accrued liabilities include $2,445 (July 31, 2011: $18,065, August 1, 2010: $249) payable to a public company with one common director for unpaid fees. These amounts are unsecured, non-interest bearing and payable on demand.

## 14. SEGMENTAL REPORTING

The Company operates in one business segment, the acquisition and exploration of mineral properties. The Company's equipment is located in Canada and its mineral properties are distributed by geographic location as follows:

| | October 31, 2011 | July 31, 2011 | August 1, 2010 |
|---|---|---|---|
| Canada | $ 884,713 | $ 881,614 | $ 1,419,226 |
| Tanzania | 2,803,695 | 2,021,745 | - |
| | $ 3,688,408 | $ 2,903,359 | $ 1,419,226 |

## 15. SUBSEQUENT EVENTS

Subsequent to October 31, 2011,

a) 50,000 stock options at an exercise price of $0.16 per share were forfeited.

b) The Company granted 1,150,000 stock options at an exercise price of $0.10 per share to directors, officers and consultants for a period of five years.

## 16. FIRST TIME ADOPTIONS OF IFRS

The Company's financial statements for the year-ending July 31, 2012 are the first annual financial statements that will be prepared in accordance with 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 August 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 July 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 pre-changeover Canadian Generally Accepted Accounting Principles ("pre-changeover Canadian GAAP").

The Company's IFRS accounting policies presented in Note 3 have been applied in preparing these condensed consolidated interim financial statements for the period ended October 31, 2011, the comparative information and the opening statement of financial position at the date of transition.

The Company has applied IFRS 1 *First-time Adoption of International Financial Reporting Standards* in preparing these first IFRS condensed consolidated interim financial statements. The effects of the transition to IFRS on equity, comprehensive income and reported cash flows are presented in this section.

i) First-time adoption exemptions and exceptions applied

The IFRS 1 applicable exemptions and exceptions applied in the conversion from pre-changeover Canadian GAAP to IFRS are as follows:

***Mandatory Exceptions***

Estimates

The estimates previously made by the Company under pre-changeover Canadian GAAP were not revised for the application under IFRS except where necessary to reflect any difference in accounting policy or where there was objective evidence that those estimates were in error. As a result, the Company has not used hindsight to revise estimates.

***Optional Exemptions***

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.

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**16. FIRST TIME ADOPTIONS OF IFRS (continued)**

ii) Reconciliations of pre-changeover Canadian GAAP equity and comprehensive income to IFRS

IFRS 1 requires an entity to reconcile equity, comprehensive income and cash flows for prior periods. The changes made to the statements of financial position and statements of comprehensive loss as shown below have resulted in reclassifications of various amounts on the statements of cash flows, however, as there have been no adjustments to net cash flows, no reconciliation of cash flows has been prepared.

The August 1, 2010 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

| | Canadian GAAP August 1, 2010 | Effect of transition to IFRS | IFRS August 1, 2010 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | $ 274,976 | $ - | $ 274,976 |
| Receivables | 2,079 | - | 2,079 |
| Prepaid expenses and deposits | 333 | - | 333 |
| **Total current assets** | 277,388 | - | 277,388 |
| **Non-current assets** | | | |
| Equipment | 4,599 | - | 4,599 |
| Exploration and evaluation assets (a) | 1,732,526 | (313,300) | 1,419,226 |
| **Total assets** | $ 2,014,513 | $ (313,300) | $ 1,701,213 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | $ 53,552 | $ - | $ 53,552 |
| Deferred income tax liability (a) | 313,300 | (313,300) | - |
| **Total liabilities** | 366,852 | (313,300) | 53,552 |
| **Equity** | | | |
| Share capital | 3,350,847 | - | 3,350,847 |
| Reserves | 400,831 | - | 400,831 |
| Accumulated deficit | (2,104,017) | - | (2,104,017) |
| **Total shareholders' equity** | 1,647,661 | - | 1,647,661 |
| **Total liabilities and shareholders' equity** | $ 2,014,513 | $ (313,300) | $ 1,701,213 |

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**16. FIRST TIME ADOPTIONS OF IFRS (continued)**

ii) Reconciliations of pre-changeover Canadian GAAP equity and comprehensive income to IFRS (continued)

The July 31, 2011 Canadian GAAP statement of financial position has been reconciled to IFRS as follows:

| | Canadian GAAP July 31, 2011 | Effect of transition to IFRS | IFRS July 31, 2011 |
|---|---|---|---|
| **ASSETS** | | | |
| **Current assets** | | | |
| Cash and cash equivalents | $ 11,921 | $ - | $ 11,921 |
| Receivables | 14,550 | - | 14,550 |
| Prepaid expenses and deposits | 1,762 | - | 1,762 |
| **Total current assets** | 28,233 | - | 28,233 |
| **Non-current assets** | | | |
| Rent deposit | 6,475 | - | 6,475 |
| Equipment | 4,068 | - | 4,068 |
| Exploration and evaluation assets ((b) and (c)) | 3,122,669 | (219,310) | 2,903,359 |
| **Total assets** | $ 3,161,445 | $ (219,310) | $ 2,942,135 |
| **LIABILITIES AND EQUITY** | | | |
| **Current liabilities** | | | |
| Accounts payable and accrued liabilities | $ 142,289 | $ - | $ 142,289 |
| Interest payable | 2,375 | - | 2,375 |
| Loans payable | 160,000 | - | 160,000 |
| **Total liabilities** | 304,664 | - | 304,664 |
| **Equity** | | | |
| Share capital | 7,271,043 | - | 7,271,043 |
| Reserves | 461,530 | - | 461,530 |
| Accumulated deficit ((b) and (c)) | (4,875,792) | (219,310) | (5,095,102) |
| **Total shareholders’ equity** | 2,856,781 | (219,310) | 2,637,471 |
| **Total liabilities and shareholders’ equity** | $ 3,161,445 | $ (219,310) | $ 2,942,135 |

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## 16. FIRST TIME ADOPTIONS OF IFRS (continued)

ii) Reconciliations of pre-changeover Canadian GAAP equity and comprehensive income to IFRS (continued)

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

| | Year ended July 31, 2011 | | |
|---|---|---|---|
| | Canadian GAAP | transition to IFRS | IFRS |
| **Expenses** | | | |
| Bank charges | $ 696 | $ - | $ 696 |
| Consulting | 315,304 | - | 315,304 |
| Depreciation | 963 | - | 963 |
| Finance fees | 149,423 | - | 149,423 |
| Management and directors' fees | 144,504 | - | 144,504 |
| Office and miscellaneous | 35,518 | - | 35,518 |
| Professional fees | 62,685 | - | 62,685 |
| Shareholder information | 27,891 | - | 27,891 |
| Share-based payments | 341,077 | - | 341,077 |
| Transfer agent and filing fees | 31,807 | - | 31,807 |
| Travel and promotion | 26,236 | - | 26,236 |
| | (1,136,104) | - | (1,136,104) |
| **Other items** | | | |
| Interest income | 1,710 | - | 1,710 |
| Interest expense | (7,288) | - | (7,288) |
| Write-down of mineral properties ((b) and (c)) | (1,943,393) | 93,990 | (1,849,403) |
| | (1,948,971) | 93,990 | (1,854,981) |
| Loss before income tax provision | (3,085,075) | 93,990 | (2,991,085) |
| Deferred income tax recovery ((b) and (c)) | 313,300 | (313,300) | - |
| **Net loss and comprehensive loss** | $ (2,771,775) | $ (219,310) | $ (2,991,085) |

(a) Under Canadian GAAP, the Company recognized a $313,300 deferred tax liability and a corresponding bump up to the carrying value of the Yukon Quartz and Ontario Lithium properties upon initial recognition at the time of acquisition of the Company's wholly owned subsidiary, 0854508 BC Ltd. ("BC CO"). The Company allocated 30% of the bump up ($93,990) to the Ontario Lithium claims and 70% of the bump up ($219,310) to the Yukon Quartz claims. Under IFRS the acquisition of BC Co did not meet the criteria for a business combination and therefore the deferred tax liability cannot be recognized.

The deferred tax liability and corresponding increase in the carrying value of the above mineral properties were derecognized as of the transition date.

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## 16. FIRST TIME ADOPTIONS OF IFRS (continued)

ii) Reconciliations of pre-changeover Canadian GAAP equity and comprehensive income to IFRS (continued)

(b) During the year ended July 31, 2011, under Canadian GAAP, the Company recognized a $313,300 recovery of deferred income tax for the dissolution of BC Co. Under IFRS, recovery of future income tax became $Nil due to the elimination of the deferred tax liability upon initial recognition at the time of acquisition of BC Co.

(c) During the year ended July 31, 2011, the Company abandoned the Ontario Lithium claims and the related acquisition costs of $387,789 were written off. Under IFRS, the impairment of the acquisition costs was decreased to $293,799 by $93,990 due to the elimination of the mineral property bump up upon initial recognition.

## 17. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

Investing and financing activities that do not have a direct impact on cash flows are excluded from the statement of cash flows. The following transactions were excluded from the statements of cash flows:

Three months ended October 31, 2011:

a) Pursuant to the exercise of options, $46,188 was transferred to share capital from reserves.

b) Included in exploration and evaluation assets is $4,000 which is included in accounts payable and accrued liabilities.

c) The Company bifurcated the flow-through share private placement which resulted in a transfer from share capital of $17,500 to flow-through share premium liability.

Three months ended October 31, 2010:

a) Pursuant to the exercise of options, $94,702 was transferred to share capital from reserves.

## 18. COMMITMENT

During the year ended July 31, 2011, the Company entered into a license agreement for office premises for a period ending July 31, 2014. Amounts under the lease are as follows:

| | Amounts |
|---|---|
| July 31, 2012 | $ 14,208 |
| July 31, 2013 | 18,944 |
| July 31, 2014 | 18,944 |
| | $ 52,096 |