MAGNA RESOURCES LTD.

An Exploration Stage Enterprise

CONSOLIDATED FINANCIAL STATEMENTS

JULY 31, 2012 and 2011

(Expressed in Canadian Dollars)

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Management's Responsibility for Financial Reporting

The accompanying consolidated financial statements of Magna Resources Ltd. were prepared by management in accordance with International Financial Reporting Standards. Management acknowledges responsibility for the preparation and presentation of the consolidated financial statements, including responsibility for significant accounting judgments and estimates and the choice of accounting principles and methods that are appropriate to the Company's circumstances. The significant accounting policies of the Company are summarized in Note 2 to the consolidated financial statements.

Management has established processes, which are in place to provide them sufficient knowledge to support management representations that they have exercised reasonable diligence that (i) the consolidated financial statements do not contain any untrue statement of material fact or omit to state a material fact required to be stated or that is necessary to make a statement not misleading in light of the circumstances under which it is made, as of the date of and for the years presented by the consolidated financial statements and (ii) the consolidated financial statements fairly present in all material respects the financial condition, results of operations and cash flows of the Company, as of the date and for the periods presented by the audited consolidated financial statements.

The Board of Directors is responsible for reviewing and approving the consolidated financial statements together with other financial information of the Company and for ensuring that management fulfills its financial reporting responsibilities. An Audit Committee assists that Board of Directors in fulfilling this responsibility. The Audit Committee meets with management to review the financial reporting process and the consolidated financial statements together with other financial information of the Company. The Audit Committee reports its findings to the Board of Directors for its consideration in approving the consolidated financial statements together with other financial information of the Company for issuance to the shareholders.

Management recognizes its responsibility for conducting the Company's affairs in compliance with established financial standards, applicable laws and regulations, and for maintaining proper standards of conduct for its activities.

(signed)
"Rudy de Jonge"
CEO

(signed)
"Alec Peck"
CFO

Independent Auditors' Report

To the Shareholders of Magna Resources Ltd.:

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

Management's Responsibility for the Financial Statements
Management is responsible for the preparation and fair presentation of these 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.

Auditors' 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 auditing standards. Those standards require that we comply with ethical requirements and plan and perform an audit to obtain reasonable assurance whether the consolidated financial statements are free of 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 auditors' 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 assessing the appropriateness of accounting principles used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

We believe the audit evidence obtained 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 Magna Resources Ltd. as at July 31, 2012, July 31, 2011 and August 1, 2010, and its financial performance and its cash flows for the years ended July 31, 2012 and 2011 in accordance with International Financial Reporting Standards.

Emphasis of Matter
Without qualifying our opinion, we draw attention to Note 1 in the consolidated financial statements which indicates that the Company incurred an accumulated deficit $1,591,598. This condition, along with other matters as set forth in Note 1, indicate the existence of a material uncertainty that may cast significant doubt about the Company's ability to continue as a going concern.

Vancouver, British Columbia
November 28, 2012

MNP LLP
Chartered Accountants

MAGNA RESOURCES LTD.
Consolidated Statements of Financial Position
(Expressed in Canadian Dollars)

As at	Notes	July 31, 2012	July 31, 2011	August 1, 2010
		$	**$**	**$**
			Note 16	**Note 16**
ASSETS				
Current assets				
Cash and cash equivalents		-	34,250	58,311
Short-term investments	3	1,484,273	106,382	-
Prepaid expenses		25,791	-	-
HST/GST receivable		22,844	8,232	1,176
Other assets		-	-	48,609
Other receivable	5	162,680	2,766	-
Total current assets		1,695,588	151,630	108,096
Non-current assets				
Exploration and evaluation assets	6	2,935,031	172,730	98,695
Intangible assets	7	480,986	99,914	36,120
Total non-current assets		3,416,017	272,644	134,815
Total assets		5,111,605	424,274	242,911
LIABILITIES				
Current liabilities				
Bank indebtedness		65,788	-	-
Accounts payable and accrued liabilities		85,310	51,392	56,501
Withholding tax payable	4	162,680	-	-
Income tax payable	15	54,776	-	-
Deferred income tax liability	15	340,595	9,372	-
Due to related parties	9	42,486	-	-
Total liabilities		751,635	60,764	56,501
EQUITY				
Equity attributable to shareholders				
Share capital	8	4,622,161	1,322,961	1,220,052
Reserves		1,330,204	314,194	225,103
Accumulated deficit		(1,591,598)	(1,255,219)	(1,258,745)
Accumulated other comprehensive income (loss)		(797)	(18,426)	-
Total equity		4,359,970	363,510	186,410
Total liabilities and equity		5,111,605	424,274	242,911

These consolidated financial statements are authorised for issue by the Board of Directors on November 28, 2012. They are signed on the Company's behalf by:

On behalf of the Board:

"Rudy de Jonge" Director — *"Darryl Yea"* Director

Rudy de Jonge — Darryl Yea

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

MAGNA RESOURCES LTD.
Consolidated Statements of Operation and Comprehensive Loss
(Expressed in Canadian Dollars)

	Notes	Years Ended July 31 2012 $	2011 $ Note 16
General and administrative expenses			
Accounting and audit fees		67,010	25,009
Bank charges and interest		951	406
Consulting fees	9	72,366	-
Foreign exchange loss/(gain)		1,209	4,086
Legal fees		90,669	8,532
License and permits		623	710
Management fees		-	10,000
Meals and entertainment		13,179	701
Office expenses		21,617	414
Project investigation		148,934	-
Rent		5,769	-
Share-based payments		688,410	-
Transfer agent and filling fees		21,645	10,181
Travel and accommodation		18,565	1,225
Wages		52,878	-
Website development		6,242	4,633
		(1,210,067)	(65,897)
Gain (loss) on marketable securities		(25,634)	65,002
Gain on disposal of property		-	14,171
Gain on business combination achieved in stage	4	1,001,754	-
Interest income (expenses)		8,871	-
Other income	5	256,571	-
Net income before tax		31,495	13,276
Income tax (expenses) recovery		(367,874)	(9,750)
Net income (loss) for the year		(336,379)	3,526
Other comprehensive income (loss)			
Foreign currency translation		17,629	(18,426)
Total comprehensive loss		(318,750)	(14,900)
Earning (loss) per share, basic		(0.01)	0.00
Earning (loss) per share, diluted		(0.01)	0.00
Weighted average common shares outstanding-basic		37,879,762	10,550,984
Weighted average common shares outstanding- diluted		41,671,081	10,677,321

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

MAGNA RESOURCES LTD.
Consolidated Statements of Cash Flows
(Expressed in Canadian Dollars)

	Years Ended July 31	
	2012	**2011**
	$	**$**
		Note 16
Cash provided by (used in):		
Operating activities		
Net income (loss) for the year	(336,379)	3,526
Items not involving cash:		
Share-based payments	688,410	-
Loss/(gain) on disposal of short-term investment	25,370	-
Gain on disposal of exploration and evaluation assets	-	(14,171)
Gain on business combination achieved in stage	(1,001,754)	-
Increase in marketable securities	-	(65,002)
Deferred income tax expense (recovery)	331,397	9,750
Foreign exchange	-	4,086
Changes in non-cash working capital:		
Receivables	(11,846)	(7,056)
Other receivable	-	(2,840)
Prepaid expenses	(20,769)	-
Accounts payable and accrued liabilities	(155,086)	(4,285)
Income tax payable	54,897	-
Due to related parties	41,643	-
	(384,117)	(75,992)
Investing activities:		
Bank indebtedness	65,788	-
Sale (purchase) of short-term investment	(1,397,972)	-
Payment from Passport Potash Inc.	-	15,300
Exploration and evaluation assets and intangible assets	(322,444)	(156,606)
	(1,654,628)	(141,306)
Financing activities:		
Proceeds from shares issued	2,000,000	192,000
	2,000,000	192,000
Net change in cash and cash equivalents	(38,745)	(25,298)
Effect of exchange rate changes on cash	4,495	1,237
Cash and cash equivalents, beginning of year	34,250	58,311
Cash and cash equivalents, end of year	-	34,250

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

MAGNA RESOURCES LTD.
Consolidated Statements of Changes in Shareholders' Equity
(Expressed in Canadian Dollars)

	Common Shares					
	Number of Shares	Amount	Reserve	Deficit	Accumulated Other Comprehensive Income (Loss)	Total Shareholders' Equity
		$	$	$	$	$
Balance on August 1, 2010	20,020,000	1,220,052	225,103	(1,258,745)	-	186,410
Common shares issued:						
Shares issued for cash @ $0.16/share	2,400,000	192,000	-	-	-	192,000
Finders shares issued in private placement	-	-	-	-	-	-
Warrants	-	(89,091)	89,091	-	-	-
Net income (loss) for the year	-	-	-	3,526	-	3,526
Other comprehensive income (loss)	-	-	-	-	(18,426)	(18,426)
Balance on July 31, 2011	22,420,000	1,322,961	314,194	(1,255,219)	(18,426)	363,510
Common shares issued:						
Issuance of shares per Purchase Agreement	22,420,000	1,299,200	-	-	-	1,299,200
Shares issued for cash @ $0.30/share	6,666,666	2,000,000	-	-	-	2,000,000
Warrants	-	-	327,600	-	-	327,600
Share-based payment	-	-	688,410	-	-	688,410
Net income (loss) for the year	-	-	-	(336,379)	-	(336,379)
Other comprehensive income (loss)	-	-	-	-	17,629	17,629
Balance on July 31, 2012	51,506,666	4,622,161	1,330,204	(1,591,598)	(797)	4,359,970

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

1. NATURE OF OPERATIONS

Magna Resources Ltd. (the "Company") was incorporated on June 5, 2006 under the laws of British Columbia. The Company's principal business activity is the acquisition and exploration of exploration and evaluation assets. The shares of the Company are traded on the Canadian National Stock Exchange ("CNSX") under the symbol "MNA". As at July 31, 2012 the parent company to Magna Resources Ltd. is Confederation Minerals Ltd. ("Confederation"), which owns 56.47% of the Company's common shares.

The business of exploring for and mining of exploration and evaluation assets involves a high degree of risk and there can be no assurance that current exploration programs will result in profitable mining operations.

The financial information is presented in Canadian Dollars (CDN$), which is the presentation and functional currency of the Company.

The Company has working capital as at July 31, 2012 of $943,953 (July 31, 2011 - $90,866, August 1, 2010 - $51,595) and an accumulated deficit of $1,591,598 (July 31, 2011 - $1,255,219, August 1, 2010 - $1,258,745. The Company incurred a net loss of $336,379 for the year ended July 31, 2012 (2011 – net income of $3,526). These financial statements have been prepared under the assumptions of a going concern, which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business. The Company's ability to maintain its existence is dependent upon the continuing support of its creditors and its success in obtaining new equity financing for its ongoing operations. Financing options available to the Company include public equity financings, loans and tax credit refunds. Realization values may be substantially different from carrying values, as shown in these financial statements, should the Company be unable to continue as a going concern.

The Company's head office and registered and records office is 2600 - 1066 West Hastings Street, Vancouver, BC, Canada V6E 3X1.

2. SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance

The consolidated financial statements of the Company comply with International Financial Reporting Standards ("IFRS").

This is the Company's first consolidated financial statements prepared in accordance with IFRS. The 2012 consolidated financial statements include an opening balance sheet as at August 1, 2010, date at which the impact of IFRS transition were recorded against equity, in accordance with the provisions of IFRS 1 First Time Adoption of International Financial Reporting Standards and the comparative consolidated financial statements for the year ended July 31, 2011 were prepared using the same basis of accounting. A detailed reconciliation of the consolidated financial statements prepared under Canadian GAAP ("CGAAP") and the IFRS for the year ended July 31, 2011 is presented in Note 16.

These consolidated financial statements have been prepared on a historical cost basis except for financial instruments classified as at fair value through profit or loss have been measured at fair value. In addition, these consolidated financial statements have been prepared using the accrual basis of accounting, except for cash flow information.

Basis of consolidation

These consolidated financial statements include the accounts of the Company and its controlled entity. Control is achieved 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 fully consolidated from the date on which control is transferred to the Company until the date on which control ceases. All inter-company transactions, balances, income and expenses are eliminated in full upon consolidation.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Basis of consolidation (cont'd)

Details of controlled entities are as follows:

	Country of Incorporation	Percentage owned as at July 31,			Principal Activity
		2012	2011	2010	
American Potash LLC	United States	100%	50%	50%	Exploration

Business combination

A business combination is a transaction or other event in which control over one or more businesses is obtained. A business is an integrated set of activities and assets that is capable of being conducted and managed for the purpose of providing a return in the form of dividends, lower costs or other economic benefits.

Business acquisitions are accounted for using the acquisition method whereby acquired assets and liabilities are recorded at fair value as of the date of acquisition. The excess of the purchase consideration and the non-controlling interests in the acquire, over the acquisition-date fair value of net assets acquired, is recorded as goodwill and allocated to cash generating units. If the fair value of the net assets acquired exceeds the purchase consideration, the difference is recognized immediately as a gain in the consolidated statement of comprehensive income (loss).

When a business combination is achieved in stages, the Company's previously held equity interest in the acquiree is remeasured to fair value at the acquisition date (i.e. the date when the Company obtains control) and the resulting gain or loss is recognized in net earnings.

Acquisition related costs are expensed during the period in which they are incurred. If the assets acquired are not a business, the transaction is accounted for as an asset acquisition.

Non-controlling interests that are present ownership interests and entitle their holders to a proportionate share of the corporation's net assets in the event of liquidation may be initially measured either at fair value or at the non-controlling interests' proportionate share of the recognized amounts of the acquiree's identifiable net assets. The choice of measurement basis is made on a transaction by transaction basis. Other types of non-controlling interests are measured at fair value or, when applicable on the basis specified in another IFRS.

In a business combination it usually takes time to obtain the information necessary to identify and measure items such as: assets acquired, liabilities assumed and any non-controlling interest in the acquiree, the consideration transferred in exchange for an interest in the acquire, and the resulting goodwill. If the initial accounting for a business combination can be determined only provisionally by the end of the first reporting period, the Company will include provisional amounts. Then, during a measurement period, the Company will retrospectively adjust the provisional amounts recognized at the acquisition date to reflect new information obtained about facts and circumstances that existed as of the acquisition date and, if known as of the date of measurement, would have affected the measurement of the amounts recognized. The Company will also recognize additional assets and liabilities if new information is obtained about facts and circumstances that existed as at the acquisition date and, if known as of that date, would have resulted in the recognition of those assets and liabilities. The measurement period should not exceed one year and ends as soon as the Company receives the information it was seeking about facts and circumstances that existed as of the acquisition date or when the Company believes that no more information is obtainable.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Interest in joint venture

A joint venture is an entity in which the Company holds a long-term interest and over whose strategic, financial and operating decisions the Company shares a joint control with one or more other venturers under a contractual arrangement. The Company recognizes its interest in a joint venture in the financial statements using the proportionate consolidation method. Prior to January 19, 2012, the date the Company acquired control of American Potash LLC ("American Potash") (Note 4), the consolidated financial statements included the accounts of the Company and a 50% interest in American Potash.

Interest income

Interest income from financial assets is accrued on a time basis, by reference to the principal outstanding and at the effective interest rate applicable, which is the rate that exactly discounts estimated future cash receipts through the expected life of the financial asset to that asset's carrying amount.

Foreign currencies translation and transaction

The functional currency of the Company's entities is measured using the currency of the primary economic environment in which that entity operates. The consolidated financial statements are presented in Canadian dollars which is the parent company's functional currency. The functional currency of American Potash is US dollars.

Foreign currency transactions are translated into functional currency using the exchange rates prevailing at the date of the transaction. Foreign currency monetary items are translated at the period-end exchange rate. Non-monetary items measured at historical cost continue to be carried at the exchange rate at the date of the transaction. Non-monetary items reassured at fair value are reported at the exchange rate at the date when fair values were determined. Exchange differences arising on the translation of monetary items or on settlement of monetary items are recognized in the statement of loss in the period in which they arise.

The financial statements of American Potash, which has a functional currency different from that of the parent company ("foreign operations") are translated into Canadian dollars as follows: assets and liabilities – at the closing rate at the date of the statement of financial position, and income and expenses – at the average rate of the period (as this is considered a reasonable approximation to actual rates). All resulting changes are recognized in other comprehensive income as cumulative translation adjustments.

Financing costs

The costs related to equity transactions are deferred until the closing of the equity transactions. These costs are accounted for as a deduction from equity. Transaction costs of abandoned equity transactions are expensed in the statement of operations and comprehensive loss.

Cash and cash equivalents

Cash and cash equivalents comprise cash at banks and on hand, and short term money market instruments with an original maturity of three months or less when acquired, which are readily convertible into a known amount of cash. The cash and cash equivalents are all denominated in Canadian dollars. There were no cash equivalents as at July 31, 2012, July 31, 2011 and August 1, 2010.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Short-term investments

Short-term investments consist of marketable securities and short-term deposit. Short-term deposit which is fixed term deposit held at the bank with a maturity of more than three months and less than twelve months at the time of issuance, is recorded at fair value. Marketable securities are classified as at fair value through profit or loss ("FVTPL") and are recorded at market value. Unrealized holding gains and losses on FVTPL securities are included in the statement of operations.

Exploration and evaluation assets

The Company is in the exploration stage with respect to its investment in exploration and evaluation assets and accordingly follows the practice of capitalizing all costs relating to the acquisition of, exploration for and development of mineral claims and crediting all revenues received against the cost of the related claims. Such costs include, but are not exclusive to, geological, geophysical studies, exploratory drilling and sampling. Costs incurred before the Company has obtained the legal right to explore an area are recognized in profit and loss. At such time as commercial production commences, these costs will be charged to operations on a unit-of-production method based on proven and probable reserves. The aggregate costs related to abandoned mineral claims are charged to operations at the time of any abandonment or when it has been determined that there is evidence of a permanent impairment.

The recoverability of amounts shown for exploration and evaluation assets is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete development of the properties, and on future production or proceeds of disposition.

All capitalized exploration and evaluation expenditure is monitored for indications of impairment. Where a potential impairment is indicated, assessments are performed for each area of interest. To the extent that exploration is not expected to be recovered, it is charged to the results of operations. Exploration areas where reserves have been discovered, but require major capital expenditure before production can begin, are continually evaluated to ensure that commercial quantities of reserves exist or to ensure that additional exploration work is underway as planned.

Decommissioning and rehabilitation liabilities

The Company recognizes the fair value of a decommissioning and restoration liability the year in which it is incurred when a reasonable estimate of fair value can be made. The carrying amount of the related long-lived asset is increased by the same amount as the liability.

Changes in the decommissioning and restoration liability due to the passage of time will be measured by applying an interest method of allocation. The amount will be recognized as an increase in the liability and an accretion expense in the statement of operations and comprehensive loss. Changes resulting from revisions to the timing or the amount of the original estimate of undiscounted cash flows are recognized as an increase or a decrease to the carrying amount of the liability and the related long-lived asset.

The Company did not have any decommissioning and restoration obligations at July 31, 2012, July 31, 2011 and August 1, 2010.

Intangible assets

Intangible assets consist of potash prospecting permit applications costs. These assets have indefinite lives and as such, are not subject to amortization but are tested annually for impairment.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Impairment of long lived assets

Exploration and evaluation assets, intangibles and other non-current assets are reviewed for impairment whenever events or changes in circumstances indicate that the carrying amount may not be recoverable. The recoverable amount is the higher of an asset's fair value less cost to sell or its value in use. For the purpose of assessing impairment, assets are grouped at the lowest level at which there are separately identifiable cash flows ("cash-generating units" or "CGU") The Company evaluates the impairment losses other than goodwill, for potential reversal, when events and changes in circumstances warrant such consideration.

Share-based payments

The share option plan allows the Company's employees and consultants to acquire shares of the Company. The fair value of options granted is recognized as a share-based payment expense with a corresponding increase in equity. An individual is classified as an employee when the individual is an employee for legal or tax purposes (direct employee) or provides services similar to those performed by a direct employee.

For employees, the fair value is measured at grant date and each tranche is recognized on a graded-vesting basis over the period during which the options vest. The fair value of the options granted is measured using the Black-Scholes option pricing model taking into account the terms and conditions upon which the options were granted. At each financial position reporting date, the amount recognized as an expense is adjusted to reflect the actual number of share options that are expected to vest.

Share-based payment transactions with non-employees are measured at the fair value of the goods or services received. However, if the fair value of the goods or services received cannot be estimated reliably, the share-based payment transaction is measured at the fair value of the options granted at the date the Company receives the goods or the services using the Black-Scholes option pricing model.

Warrants issued in equity financing transactions

The Company engages in equity financing transactions to obtain the funds necessary to continue operations and explore and evaluate exploration and evaluation assets. These equity financing transactions may involve issuance of common shares or units. Each unit comprises a certain number of common shares and a certain number of warrants. Depending on the terms and conditions of each equity financing transaction, the warrants are exercisable into additional common shares at a price prior to expiry as stipulated by the transaction. The Company has adopted a residual value method with respect to the measurement of shares and warrants issued as private placement units. The residual value method first allocates value to the more easily measurable component based on fair value and then the residual value, if any, to the less easily measurable component. The fair value of the common shares issued in the private placements was determined to be the more easily measurable component and were valued at their fair value, as determined by the closing quoted bid price on the announcement date. The balance, if any, was allocated to the attached warrants. Any fair value attributed to the warrants is recorded as warrants.

Comprehensive loss

Comprehensive loss is defined as the change in equity (net assets) from the transactions and other events from on-owner sources. Other comprehensive income refers to items recognized in comprehensive income which are excluded from net income calculated in accordance with IFRS.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Earnings (loss) per share

Basic earnings (loss) per share is computed by dividing net earnings (loss) available to common shareholders by the weighted average number of outstanding common shares for the period. In computing diluted earnings per share, an adjustment is made for the dilutive effect of the exercise of stock options and warrants. The number of additional shares is calculated by assuming that outstanding stock options and warrants are exercised and that the proceeds from such exercises were used to acquire common shares at the average market price during the reporting periods. In periods where a net loss is reported all outstanding options and warrants are excluded from the calculation of diluted loss per share, as they are all anti-dilutive.

Income taxes

(a) Current income tax

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute the amount are those that are enacted or substantively enacted at the end of each reporting period.

(b) Deferred income tax

Deferred income tax is provided using the liability method on temporary differences, at the end of each reporting period, between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes.

Deferred income tax liabilities are recognized for all taxable temporary difference, except:

- where the deferred income tax liability arises from the initial recognition of goodwill or of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of taxable temporary differences associated with investments in subsidiaries, where the timing of the reversal of the temporary differences can be controlled and it is probable that the temporary differences will not reverse in the foreseeable future.

Deferred income tax assets are recognized for all deductible temporary differences, carry forward or unused tax credits and unused tax losses, to the extent that it is probable that taxable profit will be available against which the deductible temporary differences and the carry forward of unused tax credits and unused tax losses can be utilized except:

- where the deferred income tax asset relating to the deductible temporary difference arises from the initial recognition of an asset or liability in a transaction that is not a business combination and, at the time of the transaction, affects neither the accounting profit nor taxable profit or loss; and

- in respect of deductible temporary differences associated with investments in subsidiaries, deferred income tax assets are recognized only to the extent that it is probable that the temporary differences will reverse in the foreseeable future and taxable profit will be available against which the temporary differences can be utilized.

The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and reduced to the extent that it is no longer probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized. Unrecognized deferred income tax assets are reassessed at the end of each reporting period and are recognized to the extent that it has become probable that future taxable profit will allow the deferred tax asset to be recovered.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income taxes (cont'd)

(b) Deferred income tax (cont'd)

Deferred income tax assets and liabilities are measured at the tax rates that are expected to apply to the year when the asset is realized or the liability is settled, based on tax rates (and tax laws) that have been enacted or substantively enacted at the end of each reporting period.

Deferred income tax relating to items recognized directly in equity is recognized in equity and not in the statements of operations and comprehensive loss.

Deferred income tax assets and deferred income tax liabilities are offset if, and only if, a legally enforceable right exists to set off current tax assets against current tax liabilities and deferred tax assets and liabilities relate to income taxes levied by the same taxation authority on either the same taxable entity or different taxable entities which intend to either settle current tax liabilities and assets on a net basis, or to realize the assets and settle the liabilities simultaneously, in each future period in which significant amounts of deferred tax assets or liabilities are expected to be settled or recovered.

Financial instruments – recognition and measurement

All financial assets and financial liabilities are initially recorded at fair value and designated upon inception into one of the following categories: held-to-maturity, available-for-sale, loans and receivables or at fair value through profit or loss ("FVTPL").

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through profit and loss. Available-for-sale instruments are measured at fair value with unrealized gains and losses recognized in other comprehensive income. Held-to-maturity instruments, loans and receivables and financial liabilities not at fair value but through profit and loss are measured at amortized cost using the effective interest rate method. The Company has implemented the following classifications for its financial instruments:

a) Cash and cash equivalents, short term investments and bank indebtedness are financial assets and liabilities at FVTPL.
b) Accounts payable and accrued liabilities and due to related parties have been classified as other financial liabilities.
c) Other receivable have been classified as loan and receivables.
d) Other assets have been classified as available-for–sale.

Impairment of financial assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

De-recognition of financial assets and financial liabilities

Financial assets are de-recognized when the rights to receive cash flows from the assets expire or the financial assets are transferred and the Company has transferred substantially all the risks and rewards of ownership of the financial assets. On de-recognition of a financial asset, the difference between the asset's carrying amount and the sum of the consideration received and receivable and the cumulative gain or loss that had been recognized directly in equity is recognized in profit or loss.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

De-recognition of financial assets and financial liabilities (cont'd)

For financial liabilities, they are de-recognized when the obligation specified in the relevant contract is discharged, cancelled or expires. The difference between the carrying amount of the financial liability de-recognized and the consideration paid and payable is recognized in profit or loss.

Impairment of non-financial assets

At each reporting date the Company assesses whether there is any objective evidence that a financial asset or a group of financial assets is impaired. A financial asset or group of financial assets is deemed to be impaired, if, and only if, there is objective evidence of impairment as a result of one or more events that has occurred after the initial recognition of the asset and that event has an impact on the estimated future cash flows of the financial asset or the group of financial assets.

Provisions

Provisions are recognized when the Company has a present obligation (legal or constructive) that has arisen as a result of a past event and it is probable that a future outflow of resources will be required to settle the obligation, provided that a reliable estimate can be made of the amount of the obligation.

Provisions are measured at the present value of the expenditures expected to be required to settle the obligation using a pre-tax rate that reflects current market assessments of the time value of money and the risk specific to the obligation. The increase in the provision due to passage of time is recognized as interest expense.

Contingent liabilities are not recognised in the financial statements and are disclosed in the notes to the financial statements unless their occurrence is remote. Contingent assets are not recognised in the financial statements, but are disclosed in the notes to the financial statements if their recovery is deemed probable.

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.

Significant accounting judgments and estimates

The preparation of consolidated financial statements in accordance with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates.

Financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the 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 the revision affects both the current and future periods.

Significant assumptions about the future and other sources of estimation uncertainty that management has made at the balance sheet 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:

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Significant accounting judgments and estimates (cont'd)

(a) The purchase price allocation. Business acquisitions are accounted for by the acquisition method of accounting whereby the purchase price is allocated to the assets acquired and the liabilities assumed based on fair value at the time of the acquisition. The excess purchase price over the fair value of identifiable assets and liabilities acquired, if any, is goodwill. The determination of fair value often requires management to make assumptions and estimates. The assumptions and estimates with respect to determining the fair value of property, plant and equipment acquired generally require a high degree of judgment. Changes in the assumptions or estimates used in determining the fair value of acquired assets and liabilities could impact the amounts assigned to assets, liabilities and goodwill, if any, in the purchase price allocation.

(b) The inputs used in accounting for share purchase option expense in the consolidated statements of operations and comprehensive loss.

(c) The provision for income taxes which is included in the consolidated statements of operations and comprehensive loss and composition and quantification of deferred income tax assets and liabilities included in the consolidated statements of financial position.

(d) The recoverability of exploration and evaluation assets in the consolidated statements of financial position.

New accounting standards and interpretations

The following standards have been issued but are not yet effective. They may result in future changes to accounting policies and other note disclosures.

(a) IFRS 9, Financial Instruments

IFRS 9 Financial Instruments is part of the IASB's wider project to replace IAS 39 Financial Instruments: Recognition and Measurement. IFRS 9 retains but simplifies the mixed measurement model and establishes two primary measurement categories for financial assets: amortized cost and fair value. The basis of classification depends on the entity's business model and the contractual cash flow characteristics of the financial asset. The standard is effective for annual periods on or after January 1, 2015.

(b) IFRS 10, Consolidate Financial Statements

IFRS 10 builds on existing principles by identifying the concept of control as the determining factor in whether an entity should be included within the consolidated financial statements of the parent company. The standard provides additional guidance to assist in the determination of control where this is difficult to assess. The Company is yet to assess the full impact of IFRS 10 and is required to adopt the standard no later than the accounting period beginning on or after January 1, 2013.

(c) IFRS 11, Joint Arrangements

IFRS 11 describes the accounting for arrangements in which there is a joint control; proportionate consolidation is not permitted for joint ventures (as newly defined). IFRS 11 replaces IAS 31 Interests in Joint ventures and IEC 13 Jointly Controlled Entities – Non-Monetary Contributions by Venturers. The Company is yet to assess the full impact of IFRS 11 and is required to adopt the standard no later than the accounting period beginning on or after January 1, 2013.

2. SIGNIFICANT ACCOUNTING POLICIES (cont'd)

New accounting standards and interpretations (cont'd)

(d) IFRS 12, Disclosure of Interests in Other Entities

IFRS 12 includes the disclosure requirements for all forms of interests in other entities, including joint arrangements, associates, special purpose vehicles and other off balance sheet vehicles. The Company is yet to assess the full impact of IFRS 12 and is required to adopt the standard no later than the accounting period beginning on or after January 1, 2013.

(e) IFRS 13, Fair Value Measurement

IFRS 13 aims to improve consistency and reduce complexity by providing a precise definition of fair value and a single source of fair value measurement and disclosure requirements for use across IFRS's. The requirements, which are largely aligned between IFRS and US GAAP, do not extend the use of fair value accounting but provide guidance on how it should be applied where its use is already required or permitted by other standards within IFRS or US GAAP. The Company is yet to assess the full impact of IFRS 13 and is required to adopt the standard no later than the accounting period beginning on or after January 1, 2013.

(f) IAS 7, Financial Instruments: Disclosures

Amendments to IAS 7 provide disclosure requirements for the offsetting of a financial asset and financial liabilities when offsetting is permitted under IFRS. The disclosure amendments are required to be adopted retrospectively for periods beginning January 1, 2013.

(g) IAS12 (revised), Income Taxes

In December 2010, the IASB issued amendments to IAS 12 to remove subjectivity in determining on which basis an entity measures the deferred tax relating to an asset. The amendments introduce a presumption that entities will assess whether the carrying value of an asset will be recovered through the sale of the asset. These amendments are effective for annual periods beginning on or after January 1, 2013. The Company is currently evaluating the impact of these amendments to its consolidated financial statements but the impact, if any, is not expected to be material.

(h) IAS 19, Employee Benefits

Amendments to IAS 19 provide new requirements for the accounting for defined benefit pension plans. Most notably, the amendments mandate the immediate recognition of actuarial gains and losses, and require companies to use the same discount rate for both the defined benefit obligation and the expected asset return when calculating the interest component of pension expense. The Company does not believe the adoption of IAS 19 will materially affect its financial performance or its financial position.

(i) IAS 32, Financial Instruments: Presentation

Amendments to IAS 32 provide specific guidance for when an entity can offset financial assets and liabilities by clarifying when a legally enforceable right to do so exists and when an entity meets the criterion for the intent to settle on a net basis. These amendments are effective for annual periods beginning after January 1, 2014. The Company does not believe the amendments to IAS 32 will materially affect its financial performance or its financial position.

3. SHORT-TERM INVESTMENTS

Short-term investments consist of marketable securities and short-term deposit. As at July 31, 2012, the Company has a short term deposit of $1,475,000 of principal and $9,273 of accrued interest due on January 18, 2013 with an annual yield of prime minus 1.8% (July 31, 2011 - $Nil, August 1, 2010 - $Nil).

	July 31, 2012	July 31, 2011	August 1, 2010
	$	$	$
Short-term deposit	1,484,273	-	-
Marketable securities (Note 5)	-	106,382	-
Total	1,484,273	106,382	-

For the marketable securities, the fair market value are measured using quoted prices in active market for the identical assets, the total fair market value is the published market price per unit multiplied by the number of units held without consideration of transaction costs.

4. BUSINESS ACQUISITION

On November 21, 2011, the Company and Confederation signed a purchase and sale agreement in respect of the acquisition of the remaining 50% interest in American Potash previously held by Confederation ("Purchase and Sale Transaction"). Under the terms of the agreement the Company also completed a 2 for 1 subdivision of its outstanding common shares, resulting in the Company having 22,420,000 common shares being issued and outstanding immediately prior to closing of the Purchase and Sale Transaction. When combined with the Company's previously held 50% interest in American Potash, American Potash became a wholly-owned subsidiary of the Company.

In consideration for Confederation's 50% interest in American Potash, the Company issued 22,420,000 common shares of the Company (the "Consideration Shares") to Confederation using a deemed value of $0.20 per share and 2,400,000 common share purchase warrants to exactly match the number of issued and outstanding securities of the Company immediately prior to closing of the Purchase and Sale Transaction. Each warrant entitles Confederation to purchase a further common share at a price of $0.10 until February 25, 2016. Under IFRS 3, the considerations transferred were measured using the acquisition-date fair value. As a result, a discount from the deemed value of $0.20 per share has been applied due to a lack of marketability of the Consideration Shares held as a block in the hands of Confederation which resulted in the fair value of the Consideration Shares at $0.06 being assigned per share.

The reassessment at fair value of the previously held interest in American Potash gave rise to a gain of $1,001,754 that was recognized in the statements of operations and comprehensive loss under "Gain on business combination achieved in stage". The fair value of the previously held 50% interest was set at $1,328,805, being the same value as the 50% interest of American Potash acquired.

On January 19, 2012, the Purchase and Sale transaction was completed. As a result of the Purchase and Sale Transaction, the Company holds a 100% interest in American Potash. American Potash holds potash leases and an option in respect of potash lease applications in the State of Utah.

The Purchase and Sale Transaction was accounted for using the acquisition method with operating results included in the Company's statements of operations and comprehensive loss from the date of acquisition in accordance with IFRS 3, Business Combination and the Company is considered to be the accounting acquirer. The purchase price allocation is as follows:

4. BUSINESS ACQUISITION (cont'd)

Consideration	$
Fair value of 50% interest in American Potash	1,328,805

Fair Value of Net Asset Acquired	
Cash	1,884
Prepaid	5,047
Trade and other payables	(74,220)
Exploration and evaluation costs	1,234,689
Intangiable assets	161,405
	1,328,805

Since the acquisition, the acquired company has incurred a total of $20,889 loss to the Company's statements of operations and comprehensive loss. Management estimates that, if acquisition had occurred on August 1, 2011, additional loss would have been $24,608 from August 1, 2011 to January 19, 2012. Acquisition related cost of $52,975 is reported as legal expenses in the consolidated statements of operation and comprehensive loss.

In addition to the above transaction, Confederation subscribed for 6,666,666 common shares of the Company at $0.30 per share for gross proceeds of $2,000,000. As at July 31, 2012, the Company has an aggregate of 51,506,666 common shares and 4,800,000 common share purchase warrants exercisable at $0.10 per share issued and outstanding (on a non-diluted basis) and Confederation holds 56.47% of the shares and 50% of the warrants in the Company.

As at July 31, 2012, the Company withhold 10% withholding tax on the gross sales price of American Potash in the amount of $162,680.

5. OTHER ASSETS

On November 2, 2010, American Potash agreed to amend the Sweetwater Option Agreement to remove the Arizona permits and Arizona properties from the agreement because Sweetwater wanted to grant the option to Passport Potash Inc. ("Passport") to acquire 100% of Sweetwater's rights and interest in the Arizona properties, subject to a 2% royalty, in consideration of payments. In return, Sweetwater agreed to compensate American Potash for the expenditures already incurred by allocating a portion of the option payments from Passport to American Potash. The allocation is based on a pre-determined formula. As a result, American Potash is entitled to 70.70% of the following:

i) 500,000 free trading shares (received) of Passport (the "Passport Shares") on the earlier of December 15, 2010 or within five business days of the date of receipt of the TSX Exchange acceptance of the option agreement (the "Acceptance Date"); and

ii) Three cash payments of US$30,000 each within 122 (received), 18 (received) and 24 (received) months of the Acceptance Date.

Under the agreement, the Arizona permits are subject to a 2% NSR royalty in favour of Sweetwater and American Potash, with Passport retaining the option to buy one-half for US$150,000 and the remaining one-half of the royalty for an additional US$150,000.

5. OTHER ASSETS (cont'd)

The allocation of the payments and the royalty to Sweetwater and American Potash is according to each of their respective percentage of total expenses incurred by them on the Arizona permits.

During the year ended July 31, 2012, Passport paid US$60,000 as option payments to acquire a 100% interest in the Arizona exploration permits and US$300,000 to obtain 100% of the 2% NSR royalties. American Potash's share of the received payment is US$254,484 (CAD $256,571) which is recorded as other income on the consolidated statements of operations and comprehensive loss.

During the year ended July 31, 2011, the Company received as consideration a 50% proportionate interest in 353,450 Passport Shares for a total of $91,897. The market value of 50% of the 353,450 Passport Shares being 176,725 shares held by the Company, as of July 31, 2011, was $104,268. During the year ended July 31, 2012, American Potash sold all the shares for gross proceeds of $86,859 (USD $86,042).

	July 31, 2012	July 31, 2011	August 1, 2010
	$	$	$
Arizona Properties	-	-	48,609
Total	-	-	48,609

6. EXPLORATION AND EVALUATION ASSETS

Green River Potash Project

In May, 2009, and amended on November 2, 2010 and further amended on December 6, 2011, American Potash entered into an option agreement (the "Sweetwater Option Agreement") with Sweetwater River Resources LLC ("Sweetwater"), John Glasscock and Kent Ausburn (collectively called the "Optionors"), to acquire pending exploration permit applications to the United States Bureau of Land Management ("BLM") in respect of certain Utah prospects and to the State of Arizona in respect of certain Arizona prospects, together with all permits and other rights issued pursuant to the applications, to allow for the exploration of potash prospects in Utah and Arizona. As at July 31, 2012, the applications in Utah are pending approval from the BLM (See Note 6 for further details).

In 2011, American Potash acquired 160 Federal lithium placer mining claims totalling 1,295 hectares (3,200 acres) in northwestern Paradox Basin, southeast Utah, USA. These claims are located on BLM-administered Federal lands and are staked over a portion of American Potash's BLM pending potash prospecting permit areas.

In 2011, American Potash acquired eleven non-contiguous Utah State Trust Land potash lease units in the potash bearing Paradox Basin. The eleven lease units total 2,853 hectares, (7,050 acres) and are all within the border of a the BLM potash prospecting permit applications held by American Potash, separated into contiguous north and south blocks by a proposed BLM Know Potash Lease Area.

6. EXPLORATION AND EVALUATION ASSETS (cont'd)

Expenditure related to the properties can be summarized as follows:

	Green River Potash
	$
Mineral acquisition	
Opening balance, July 31, 2010	84,303
Cash Payments	31,212
	115,515
Deferred exploration expenditure	
Opening balance, July 31, 2010	14,392
Geological surveys	11,525
Geological consulting	31,298
	57,215
Total as at July 31, 2011	172,730
Mineral acquisition	
Cash Payments	18,830
Shares issued for mineral property	-
	18,830
Deferred exploration expenditure	
Bonding	10,123
Surveys	17,827
Geological consulting	181,084
	209,034
Reassessment Exploration and evaluation asset through business acquisition (Note 4)	2,534,437
Total as at July 31, 2012	2,935,031

7. INTANGIBLE ASSETS

	July 31, 2012	July 31, 2011	August 1, 2010
	$	$	$
Potash Prospects Application	480,986	99,914	36,120
	480,986	99,914	36,120

Green River Potash Project

In May 2009, and amended on December 6, 2011, American Potash entered into an option agreement with Sweetwater River, John Glasscock and Kent Ausburn, to acquire pending exploration permit applications to the United States Bureau of Land Management ("BLM") in respect of certain Utah prospects and to the State of Arizona in respect of certain Arizona prospects, together with all permits and other rights issued pursuant to the applications, to allow for the exploration of potash prospects in Utah and Arizona. As at June 30 2012, the applications in Utah are pending approval from the United States Bureau of Land Management.

The option agreement entitles American Potash to acquire a 100% interest in permits, subject to a 2% royalty to the Optionors which may be bought back for $2,000,000 USD. The option may be exercised by having Company pay a total of $270,000 USD and issue in aggregate, 4,000,000 shares of Company to the Optionors upon receiving grants of exploration permits for not less than 25,000 acres of Utah property, as follow:

7. INTANGIBLE ASSETS (cont'd)

- $70,000 USD upon signing the option agreement (paid);
- 400,000 shares of Magna upon grant of the permits representing not less than 25,000 acres;
- $50,000 USD cash and 1,200,000 shares of Magna on or before the first anniversary date;
- $50,000 USD cash and 1,200,000 shares of Magna on or before the second anniversary date;
- $50,000 USD cash and 1,200,000 shares of Magna on or before the third anniversary date; and
- $50,000 USD cash on or before the fourth anniversary date.

The option period is the earlier of the fourth anniversary of the grant date or December 31, 2018. Company will pay a finder's fee in connection with this acquisition. The fee will be US $7,000 and 40,000 shares of Company, payable on the grant date, and thereafter 10% of the cash and stock payments made under the option agreement, payable as and when such payments are made.

8. SHARE CAPITAL

a) Authorized: Unlimited common shares with no par value

b) Issued and outstanding:

At July 31, 2012 there were 51,506,666 issued and fully paid common shares (July 31, 2011 – 22,420,000, August 1, 2010 – 20,020,000).

c) Common shares

During the year ended July 31, 2011, the Company completed a non-brokered private placement raising an aggregate of $192,000 by the issuance of 1,200,000 units ("Units") at a price of $0.16 per Unit. Each Unit consists of one common share and one share purchase warrant ("Warrant"). Each Warrant is exercisable into one additional common share for a period of five years at a price of $0.20 per share ("Warrant Share"), expiring February 26, 2016. The Warrants were valued at $207,777 based on the Black Scholes model which utilizes the following assumptions: expected dividend yield of nil, expected volatility of 131%, expected life of 5 years and a risk free interest rate of 2.60%. The relative fair value allocated is $89,091.

During the year ended July 31, 2012, The Company and Confederation signed a Purchase Agreement in respect of the acquisition by the Company of Confederation's 50% interest in American Potash.

On January 19, 2012, the Company issued 22,420,000 common shares at the fair value of $0.20 and 2,400,000 common share purchase warrants to Confederation. Each warrant entitles the Company to purchase a further common share at a price of $0.10 until February 25, 2016 (Also see note 4).

Also during the year ended July 31, 2012, Confederation subscribed for 6,666,666 common shares of the Company at $0.30 per share for gross proceeds to the Company of $2,000,000.

d) Escrow shares

As at July 31, 2012, all shares have been released from escrow (July 31, 2011 – 1,089,000 shares are held in escrow, August 1, 2010 – 3,267,000 shares are held in escrow)

8. SHARE CAPITAL (cont'd)

e) Stock options

The Company has a stock option plan whereby the Company is authorized to grant options to executive officers and directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common shares of the Company. Under the plan, the exercise price of each option equals the market price of the Company's shares as calculated on the date of grant. The options can be granted for a maximum term of 5 years.

On February 2, 2012, the Company granted 3,285,000 stock options to directors, officers and consultants, exercisable at $0.40 per share for a term of five years, expiring February 2, 2017. The fair value of these stock options was calculated using the Black-Scholes option pricing model. The options were valued at fair value of $688,410 ($0.210 per share) where the exercise price is equal to the market price at the date of grant and the fair value of each option granted, assuming a risk-free interest rate of 1.29%, a dividend yield of nil, an expected volatility of 98.51% and an average expected life of 5 years. A share-based payment expense of $688,410 was charged to operations and added to reserves.

The continuity of stock options for the year ended July 31, 2012 is as follows:

	Number of Options Outstanding	Weighted Average Exercise Price ($)
Balance, July 31, 2011 and 2010	**857,500**	**0.25**
Granted, exercisable on or before February 2, 2017	3,285,000	0.40
Balance July 31, 2012	**4,142,500**	**0.37**

The options outstanding and exercisable at July 31, 2012, are as follows:

Outstanding and Exercisable Options

Number Outstanding	Weighted Average Exercise Price ($)	Weighted Average Remaining Contractual Life (Years)
857,500	0.25	1.90
3,285,000	0.40	4.50
4,142,500	0.37	3.96

f) Share purchase warrants

In January 2012, the Company issued 2,400,000 common share purchase warrants pursuant to the Purchase Agreement with Confederation. Each warrant entitles Confederation to purchase a further common share at a price of $0.10 until February 25, 2016. The fair value of these warrants was calculated using the Black-Scholes option pricing model. The warrants were valued at fair value of $327,600 where the exercise price is equal to the market price at the date of grant and the fair value of each warrant granted, assuming a risk-free interest rate of 1.25%, a dividend yield of nil, an expected volatility of 100.01% and an average expected life of 2 years.

8. SHARE CAPITAL (cont'd)

f) Share purchase warrants (cont'd)

The continuity of warrants for the year ended July 31, 2012 is as follows:

	Number of Warrants	Weighted Average Exercise Price ($)
Balance, July 31, 2010	-	-
Issued, exercisable on or before February 25, 2016	2,400,000	0.10
Balance, July 31, 2011	**2,400,000**	**0.10**
Issued, exercisable on or before February 25, 2016	2,400,000	0.10
Balance, July 31, 2012	**4,800,000**	**0.10**

9. RELATED PARTY TRANSACTIONS

The following directors and/or senior officers transacted with the Company in the reporting period. The terms and conditions of the transactions with key management personnel and their related parties were no more favourable than those available, or which might reasonably be expected to be available, on similar transactions to non-key management personnel related entities on an arm's length basis. The aggregate value of transactions and outstanding balances relating to key management personnel were as follows:

Service provided by		Year ended July 31, 2012	2011
		$	$
Alexander Peck	(a)	13,500	-
St. Cloud Mining Services Inc.	(b)	60,000	-
Mike Sieb	(c)	50,000	-
Global Mining Services Inc. (Kent Ausburn) – Geological Consulting	(d)	21,442	5,995
Compensation benefits to key management	(e)	513,426	-
		658,368	5,995

(a) Alexander Peck, the CFO of the Company provided management services to the Company.
(b) St. Cloud Mining Services Inc. is a privately held corporation controlled by a director, who provided consulting services to the Company.
(c) Mike Sieb, the president of the Company provided management services to the Company
(d) Global Mining Services Inc. is a privately held corporation controlled by a director, Kent Ausburn, who provided geological consulting services to the Company.
(e) Compensation benefits to key management personnel consists of share-based payments made during the year.

9. RELATED PARTY TRANSACTIONS (cont'd)

	July 31, 2012		July 31, 2011	August 1, 2010
	$		$	$
St. Cloud Mining Services Inc.	13,000	*	30,000	25,000
Mike Sieb	108	*	-	-
Confederation Minerals Ltd.	120,194	**	-	-
	133,302		30,000	25,000

*The balance included in accounts payable and accrued liabilities.
**The balance included $162,680 withholding tax receivable and $42,486 shareholder's loan which is unsecured, non-interest bearing, and payable on demand.

A director of the Company is a party to the Sweetwater Option Agreement with American Potash LLC.

Also see Note 4, 11 and 17.

10. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	2012	2011
	$	$
Warrants granted for business acquisition	327,600	-
Shares issued for business acquisition	1,299,200	-
Exploration and evaluation assets in accounts payable	41,730	-

11. COMMITMENTS

a) See Note 5.

b) On April 1, 2011, American Potash renewed a consulting agreement with an independent party to provide advice and consultation to American Potash regarding exploration, leasing and mining on public lands. Compensation is $5,000 USD for 35 hours of service per month for a period of one year. Additional hours to complete services will be billed at $165 USD per hour.

c) On June 1, 2011, the Company entered into an agreement with St. Cloud Mining Services Inc. (wholly owned by one of the directors), to provide management/consulting services to the Company at a rate of $5,000 per month.

d) On January 1, 2012, the Company entered into an agreement with Alec Peck to provide consulting services as CFO of the Company. Mr. Peck received $13,500 during Fiscal 2012.

12. FINANCIAL INSTRUMENTS

(a) Fair Values

Financial instruments recognized at fair value on the consolidated statement of financial position must be classified in one of the following three fair value hierarchy levels:

Level 1 – measurement based on quoted prices (unadjusted) observed in active markets for identical assets or liabilities;
Level 2 – measurement based on inputs other than quoted prices included in Level 1 that are observable for the asset or liability; or
Level 3 – measurement based on inputs that are not observable (supported by little or no market activity) for the asset or liability.

12. FINANCIAL INSTRUMENTS (cont'd)

Assets and liabilities measured at fair value on a recurring basis were presented on the Company's consolidated statements of financial position are as follows:

	Fair Value Measurements Using		
As at July 31, 2012	**Quoted prices in active markets for identical instruments (Level 1) $**	**Significant other observable inputs (Level 2) $**	**Significant unobservable inputs Level 3 $**
Cash and cash equivalents	$ -	$ -	$ -
Short term investments	$ 1,484,273	$ -	$ -
Total	$ 1,484,273	$ -	$ -

	Fair Value Measurements Using		
As at July 31, 2011	**Quoted prices in active markets for identical instruments (Level 1) $**	**Significant other observable inputs (Level 2) $**	**Significant unobservable inputs Level 3 $**
Cash and cash equivalents	$ 34,250	$ -	$ -
Short term investments	$ 106,382	$ -	$ -
Total	$ 140,632	$ -	$ -

	Fair Value Measurements Using		
As at August 1, 2010	**Quoted prices in active markets for identical instruments (Level 1) $**	**Significant other observable inputs (Level 2) $**	**Significant unobservable inputs Level 3 $**
Cash and cash equivalents	$ 58,311	$ -	$ -

The fair values of other financial instruments, which include other receivable, other assets, bank indebtedness, accounts payable and accruals and due to related parties, approximate their carrying values due to the relatively short-term maturity of these instruments.

(b) Credit Risk

Financial instruments that potentially subject the Company to a concentration of credit risk consist primarily of cash and cash equivalents and short-term investments. The Company limits its exposure to credit loss by placing its cash and cash equivalents with high credit quality financial institutions. The carrying amount of financial assets represents the maximum credit exposure.

(c) Foreign Exchange Rate Risk

The functional currency of the Company's subsidiary American Potash is the US dollar. Foreign currency risk arises from the fluctuation in currency exchange between the Canadian dollar and US dollar. The Company has not entered into financial instruments to hedge against this risk At July 31, 2012, the assets and liabilities of the American Potash subsidiary have been converted at the year-end exchange rate. A 1% strengthening in US dollar against Canadian dollar would have a before-tax effect of $9,830 increase in accumulated other comprehensive income, based on amounts held at the year end.

12. FINANCIAL INSTRUMENTS (cont'd)

(d) Liquidity Risk

Liquidity risk is managed by ensuring sufficient financial resources are available to meet obligations associated with financial liabilities. The following table is based on the contractual maturity dates of financial assets and the earliest date on which the Company can be required to settle financial liabilities.

Contractual maturity analysis is as follows:

	Less than 3 months	3-12 months	1-5 years	Longer than 5 years	Total
	$	$	$	$	$
July 31, 2012					
Bank indebtedness	65,788	-	-	-	65,788
Accounts payable and accrued liabilities	85,310	-	-	-	85,310
Due to related parties	-	42,486	-	-	42,486
July 31, 2011					
Accounts payable and accrued liabilities	51,392	-	-	-	51,392
August 1, 2010					
Accounts payable and accrued liabilities	56,501	-	-	-	56,501

(e) Price Risk

The Company is exposed to price risk with respect to commodity prices. The Company's ability to raise capital to fund exploration and development activities is subject to risks associated with fluctuations in the market price of commodities.

(f) Interest Rate Risk

Interest rate risk is the risk that the fair value or cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has interest bearing assets in relation to cash at banks carried at floating interest rates with reference to the market. The Company's operating cash flows are substantially independent of changes in market interest rates. The Company has not used any financial instrument to hedge potential fluctuations in interest rates. The exposure to interest rates for the Company is considered immaterial. As at July 31, 2012, the Company has in total $1,484,273 (July 31, 2011: $Nil, August 1, 2010: $Nil) in guaranteed investment certificates.

The policies to manage interest rate risk have been followed by the Company during prior periods and are considered to be effective.

13. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support its operations and business development. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business.

The Company has not generated any revenues since its inception; therefore, the Company is dependent on external financing to fund its future intended business plan. The capital structure of the Company currently consists of working capital and shareholders' equity. The Company manages the capital structure and makes adjustments to it in the light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements. The Company is not subject to externally imposed capital requirements.

13. CAPITAL MANAGEMENT (cont'd)

Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

14. SEGMENTAL INFORMATION

The Company's activities are all in one industry segment of mineral property acquisition and exploration. The Company's mining operations are centralized whereby management of the Company is responsible for business results and the everyday decision-making. The Company's operations therefore are segmented on a geographic basis. All of the Company's resource properties are located in the United States. The Company's total assets are located in the following geographic locations:

	July 31, 2012	July 31, 2011	August 1, 2010
Canada	$ 1,750,634	$ 26,022	$ 58,168
United States	3,360,971	398,252	184,743
	$ 5,111,605	$ 424,274	$ 242,911

15. INCOME TAXES

Income tax expenses comprise the following:

	2012	2011
	$	$
Current tax	35,691	-
Deferred tax expenses (recovery)	332,183	9,750
	367,874	9,750

The Company is subject to Canadian federal and provincial income taxes at an approximate rate of 25.75% (2011: 26.5%). The one of Company's subsidiary is subject to US taxes.

The following table reconciles the expected income taxes expense (recovery) at the Canadian statutory income tax rates to the amounts recognized in the consolidated statements of operations and comprehensive loss for the years ended July 31, 2012 and 2011:

	2012	2011
Income (loss) before taxes	31,495	8,159
Statutory tax rate	25.75%	26.50%
Expected income tax (recovery)	8,110	2,162
Non-deductible items	172,627	(16,232)
Change in estimates	(34)	-
Foreign tax rate difference	85,078	-
Change enacted tax rate	27,569	-
Others	(9,480)	(5,374)
Change in deferred tax asset not recognized	84,004	29,194
Total income taxes	367,874	9,750

15. INCOME TAXES (cont'd)

Deferred income taxes are base on between the accounting and tax values of assets and liabilities and consist of the following:

	2012	2011	2010
	$	$	$
Non capital loss carryforwards	206,132	117,058	106,314
Financial instruments	-	(9,372)	-
Financing costs	5,070	10,141	16,123
Exploration and evaluation assets	(340,595)	-	-
	(129,393)	117,827	-
Deferred tax asset not recognized	(211,202)	(127,199)	(122,437)
Deferred income tax assets (liabilities)	(340,595)	(9,372)	-

The Company has net operating loss carryforwards of approximately $ 824,000 which may be carried forward to apply against future year income tax for Canadian income tax purposes subject to the final determination by taxation authorities, expiring in the following years:

	$
2026	10,228
2027	73,564
2028	2,780
2029	241,781
2030	71,222
2031	68,791
2032	356,164
Total	824,530

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS

As stated in Note 2, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS.

The accounting policies in Note 2 have been applied in preparing the consolidated financial statements for the year ended July 31, 2012, the comparative information for the year ended July 31, 2011, the statement of financial position as at July 31, 2011 and the opening IFRS statement of financial position on August 1, 2010, the "Transition Date."

In preparing the opening IFRS statement of financial position including comparative information for the year ended July 31, 2011, the Company has adjusted amounts reported previously in financial statements prepared in accordance with GAAP.

The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first-time adopters of IFRS. The Company has applied the following mandatory exceptions and optional exemptions outlined by IFRS 1.

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)

Mandatory exceptions

In accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP unless those estimates were in error. The Company's IFRS estimates as at the Transition Date are consistent with its Canadian GAAP estimates as at that date.

Optional exemptions

IFRS 1 allows a first-time adopter to not comply with the requirements of IAS 21 "The Effects of Changes in Foreign Exchange Rates" for cumulative foreign currency translation differences that existed at the date of transition to IFRS. The Company has chosen to apply this election and has eliminated the cumulative foreign currency translation difference and adjusted deficit by the same.

An explanation of how the transition from GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables.

Reconciliation of Assets, Liabilities and Equity

		As at August 1, 2010			As at July 31, 2011		
	Notes	GAAP	Effect of transition to IFRS	IFRS	GAAP	Effect of transition to IFRS	IFRS
ASSETS							
Current Assets							
Cash and cash equivalents		58,311	-	58,311	34,250	-	34,250
Short-term investments		1,176	-	1,176	106,382	-	106,382
HST/GST receivable		-	-	-	8,232	-	8,232
Other assets	**(b)**	49,433	(824)	48,609	-	-	-
Other receivable		-	-	-	2,766	-	2,766
Total current assets		108,920	- 824	108,096	151,630	-	151,630
Non-Current Assets							
Exploration and evaluation assets	**(b), (c)**	137,100	(38,405)	98,695	294,179	(121,449)	172,730
Intangible assets	**(c), (d)**	-	36,120	36,120	4,633	95,281	99,914
Total non-current assets		137,100	(2,285)	134,815	298,812	(26,168)	272,644
TOTAL ASSETS		246,020	(3,109)	242,911	450,442	(26,168)	424,274
LIABILITIES							
Current liabilities							
Payables and accruals		56,501	-	56,501	51,392	-	51,392
Deferred income tax liability		-	-	-	9,372	-	9,372
Total liabilities		56,501	-	93,301	60,764	-	60,764
SHAREHOLDERS`EQUITY							
Share capital		1,220,052	-	1,220,052	1,322,961	-	1,322,961
Contributed surplus	**(a)**	225,103	(225,103)	-	225,103	(225,103)	-
Reserves	**(a)**	-	225,103	225,103	89,091	225,103	314,194
Accumulated deficit	**(b), (d)**	(1,255,636)	(3,109)	(1,258,745)	(1,247,477)	(7,742)	(1,255,219)
Accumulated other comprehensive income (loss)	**(b)**	-	-	-	-	(18,426)	(18,426)
Total shareholders equity		189,519	(3,109)	186,410	389,678	(26,168)	363,510
TOTAL SHAREHOLDERS' EQUITY & LIABILITIES		246,020	(3,109)	242,911	450,442	(26,168)	424,274

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)

Reconciliation of Loss and Comprehensive Loss

		Year ended July 31, 2011		
	Notes	GAAP	Effect of transition to IFRS	IFRS
		$	$	$
Accounting and audit fees		25,009	-	25,009
Bank charges and interest		406	-	406
Foreign exchange loss/(gain)		4,086	-	4,086
Legal fees		8,532	-	8,532
License and permits		710	-	710
Management fees		10,000	-	10,000
Meals and entertainment		701	-	701
Office expenses		414	-	414
Transfer agent and filling fees		10,181	-	10,181
Travel and accommodation		1,225	-	1,225
Website development	**(d)**	-	4,633	4,633
		(61,264)	-	(65,897)
Unrealized gain on markable securities		65,002	-	65,002
Gain on disposal of property		14,171	-	14,171
Net Loss before tax		17,909	-	13,276
Deferred income tax		(9,750)	-	(9,750)
Net Loss for the year		8,159	-	3,526
Other comprehensive income (loss)				
Foreign currency translation	**(b)**	-	(18,426)	(18,426)
Comprehensive Loss for the year		8,159	(18,426)	(14,900)

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)

Reconciliation of Cash Flows

	Notes	Year ended July 31, 2011		
		GAAP	Effect of transition to IFRS	IFRS
		$	$	$
Operating				
Net Loss	**(d)**	8,159	(4,633)	3,526
Adjustments for:				
Future income tax expense (recovery)		9,750	-	9,750
(Gain)/Loss on marketable securities		(65,002)	-	(65,002)
(Gain)/Loss on disposal of mineral property		(14,171)	-	(14,171)
Foreign exchange loss (income)		4,086	-	4,086
Changes in non-cash working capital:				
HST/GST receivable		(7,056)	-	(7,056)
Other receivable		(2,840)	-	(2,840)
Accounts payable and accrued liabilities		(4,285)	-	(4,285)
Total Operating		(71,359)	(4,633)	(75,992)
Investing activities				
Proceeds from disposal of mineral property		15,300	-	15,300
Mineral property investment		(156,606)	-	(156,606)
Website development	**(d)**	(4,633)	4,633	-
Total Investing		(145,939)	4,633	(141,306)
Financing activities				
Proceeds from the issuance of common stock		192,000	-	192,000
Total Financing		192,000	-	192,000
Net increase (decrease) in cash		(25,298)	-	(25,298)
Effect of exchange rate changes on cash		1,237	-	1,237
Cash, beginning of year		58,311	-	58,311
Cash, end of year		34,250	-	34,250

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)

Notes to Reconciliations:

(a) Reserves

IFRS requires an entity to present for each component of equity, a reconciliation between the carrying amount at the beginning and end of the period, separately disclosing each change. Under IFRS, "Reserves" has taken the place of "Contributed Surplus" and as such the Company has examined its contributed surplus account and separated those components relating to share purchase warrants and stock options.

(b) Adjustment on translation of foreign currency entity

Under Canadian GAAP, all the Company's subsidiaries were integrated foreign operations. Therefore, monetary items were translated at year-end rates and non-monetary items were translated at historic rates with all foreign currency gains and losses recognized in statements of operations and comprehensive loss. IFRS requires that the functional currency of each subsidiary of the Company be determined separately.

It was determined that, as at the transition date, the functional currency of the Company is Canadian dollars and the functional currency of its joint venture is USD. This results in adjustment to the carrying value of the joint venture's non-monetary assets as of the transition date.

In accordance with the IFRS 1 optional exemptions, on transition date the Company has elected to transfer the currency translation differences recognized as a separate component of equity, to deficit. Subsequent adjustments for the non-monetary assets are charged to cumulative translation adjustment (included in other comprehensive income). The net impact of this change in policy was as follows:

- At July 1, 2010, a decrease to exploration and evaluation asset and other assets of $3,109 with the offsetting charge to deficit.
- At July 31, 2011, a decrease to exploration and evaluation asset of $18,426 and a cumulative charge of $18,426 to other comprehensive income.

(c) Reclassification from exploration and evaluation assets to intangible assets

IFRS 6 excludes pre-license expenditures from the scope of exploration and evaluation assets, as a result, the Company's pending permit applications are excluded from exploration and evaluation assets. However, since the nature of the asset meet the definition of intangible under IAS 38, the costs associated to the Company's pending permit applications have been reclassified to intangible asset as of the transition date and $36,120 and $99,914 was reclassified from exploration and evaluation assets to intangible assets as of August 1, 2010 and July 31, 2011, respectively.

(d) Website development costs

Under IFRS, IAS 38 Development Capitalization Criteria, an intangible asset arising from development shall be recognized if and only if, an entity can demonstrate all of the following:

i. the technical feasibility of completing the intangible asset so that it will be available for use or sale.
ii. its intention to complete the intangible asset and use or sell it.
iii. its ability to use or sell the intangible asset.
iv. how the intangible asset will generate probable future economic benefits. Among other things, the entity can demonstrate the existence of a market for the output of the intangible asset or the intangible asset itself or, if it is to be used internally, the usefulness of the intangible asset.
v. the availability of adequate technical, financial and other resources to complete the development and to use or sell the intangible asset.

16. TRANSITION TO INTERNATIONAL FINANCIAL REPORTING STANDARDS (cont'd)

vi. its ability to measure reliably the expenditure attributable to the intangible asset during its development.

Previously capitalized website development costs have been expenses to profit and loss as they do not meet the criteria for recognition through the probable generation of future economic benefits to the Company. This has resulted in a decrease in the assets of $4,633 in the year ended July 31, 2011.

17. SUBSEQUENT EVENTS

On September 1, 2012, American Potash entered into an agreement with Global Mining Services Inc., a company wholly-owned by a director of the Company and a manager of American Potash, to provide consulting services as COO of American Potash. Global Mining Services Inc. will receive $6,000 per month for these services.

18. COMPARATIVE INFORMATION

Certain comparative information has been reclassified to conform with the presentation adopted in the current year.