TOWER RESOURCES LTD. (FORMERLY TOWER ENERGY LTD.)

CONDENSED INTERIM FINANCIAL STATEMENTS (UNAUDITED)
For the three and nine months ended July 31, 2012

(Expressed in Canadian Dollars)

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NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

Under National Instrument 51-102, Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of the condensed interim financial statements, they must be accompanied by a notice indicating that the financial statements have not been reviewed by an independent auditor. These condensed interim financial statements for the three and nine months ended July 31, 2012 have been prepared by and are the responsibility of the Company's management. They have not been reviewed by the Company's independent auditor.

For further information, please contact:

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TOWER RESOURCES LTD. (FORMERLY TOWER ENERGY LTD.)
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited)
(Expressed in Canadian Dollars)

	July 31, 2012	October 31, 2011
	$	$
Assets		
Current		
Cash and cash equivalents	2,783,375	2,058,418
Receivables (Note 3)	79,097	31,140
Prepaid expenses	57,588	1,997
	2,920,060	2,091,555
Property and equipment (Note 4)	32,357	3,941
Exploration and evaluation assets (Note 5)	993,377	192,223
Exploration and evaluation assets - oil and gas (Note 6)	1	1
Reclamation bonds (Note 7)	40,000	-
	3,985,795	2,287,720
Liabilities		
Current		
Accounts payable and accrued liabilities (Note 8)	375,563	58,950
Due to related parties (Note 10)	40,211	34,881
Flow-through premium liability (Note 9)	100,759	-
	516,533	93,831
Rehabilitation obligation	13,000	13,000
	529,533	106,831
Shareholders' equity		
Capital stock (Note 9)	10,952,603	9,392,136
Reserves (Note 9)	605,286	240,524
Deficit	(8,101,627)	(7,451,771)
	3,456,262	2,180,889
	3,985,795	2,287,720

NATURE OF BUSINESS AND GOING CONCERN (Note 1)

SUBSEQUENT EVENTS (Note 15)

Approved and authorized on behalf of the Board on October 1, 2012:

"Mark Vanry" *Mark Vanry, Director*

"Steve Vanry" *Steve Vanry, Director*

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

TOWER RESOURCES LTD. (FORMERLY TOWER ENERGY LTD.)
CONDENSED INTERIM STATEMENTS OF COMPREHENSIVE LOSS
(Unaudited)
(Expressed in Canadian Dollars)

	For the three months ended July 31,		For the nine months ended July 31,	
	2012	**2011**	**2012**	**2011**
	$	**$**	**$**	**$**
Expenses				
Accounting and audit	15,262	4,870	43,729	20,685
Consulting fees	18,243	6,000	73,662	19,050
Depreciation	4,269	-	12,404	-
Filing fees	(1,178)	1,685	12,123	13,675
Legal fees	2,267	14,016	11,441	32,701
Management fees	15,000	-	20,000	-
Office and miscellaneous	57,259	8,819	131,029	27,533
Parking	-	2,198	2,765	5,966
Property examination costs	-	12,898	5,849	30,679
Share-based compensation	117,289	23,324	364,762	128,227
Transfer agent	3,605	828	7,394	7,146
Travel and promotion	4,420	2,949	18,574	14,220
Telephone	653	2,917	4,199	6,665
Loss before other items	(237,089)	(80,504)	(707,931)	(306,547)
Other items				
Net oil and gas gain (loss)	-	44	63	(8)
Gain on debt settlement	-	10,472	-	10,472
Foreign exchange loss	(498)	(281)	(1,074)	(281)
Interest income	7,751	12,926	21,458	15,704
Reversal of flow-through premium liability (Note 9)	138,084	-	153,741	-
Write off of exploration and evaluation assets (Note 5)	(116,362)	-	(116,362)	-
Other income	-	-	249	-
	28,975	23,161	58,075	25,887
Loss and comprehensive loss for the period	(208,114)	(57,343)	(649,856)	(280,660)
Basic and diluted loss per share	(0.01)	(0.00)	(0.02)	(0.01)
Weighted average number of common shares outstanding	27,756,933	22,650,382	26,056,331	22,270,425

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

TOWER RESOURCES LTD. (FORMERLY TOWER ENERGY LTD.)
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)
(Expressed in Canadian Dollars)

	For the nine months ended July 31, 2012	2011
	$	$
Cash flows used in operating activities		
Net loss for the period	(649,856)	(280,660)
Items not affecting cash and cash equivalents:		
Depreciation	12,404	-
Share-based compensation	364,762	128,227
Accrued interest	-	205
Reversal of flow-through premium liability	(153,741)	-
Write off of exploration and evaluation assets	116,362	-
Changes in non-cash working capital items:		
(Increase) in receivables	(47,957)	(726)
(Increase) in prepaid expenses	(55,591)	(2,745)
(Decrease) in accounts payable	(35,834)	(20,010)
	(449,451)	(175,709)
Cash flows used in investing activities		
Repayment of note receivable	-	27,500
Reclamation bonds	(40,000)	-
Acquisition of property and equipment	(40,820)	(1,104)
Exploration and evaluation assets expenditures	(424,569)	(20,000)
	(505,389)	6,396
Cash flows from financing activities		
Proceeds from shares issued	1,748,000	1,217,500
Related party advances (net of repayments)	5,330	4,675
Share issuance costs	(73,533)	-
	1,679,797	1,222,175
Net change in cash and cash equivalents	724,957	1,052,862
Cash and cash equivalents, beginning of period	2,058,418	1,161,864
Cash and cash equivalents, end of period	2,783,375	2,214,726
Non-cash transactions		
Reclassification of share subscriptions to capital stock	-	710,000
Shares issued for exploration and evaluation assets acquisition	140,500	72,000
Exploration and evaluation assets expenditures in accounts payable at period end	352,447	-
Cash and cash equivalents consist of:		
Cash in bank	1,427,187	51,684
Guaranteed interest certificate	1,356,188	2,006,734
	2,783,375	2,058,418

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

TOWER RESOURCES LTD. (FORMERLY TOWER ENERGY LTD.)
CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY
(Unaudited)
(Expressed in Canadian Dollars)

	Number of Shares Issued	Capital Stock	Share Subscriptions	Reserves	Deficit	Total Shareholders' Equity
		$	$	$	$	$
Balance at October 31, 2010	**51,772,725**	**7,332,642**	**710,000**	**5,721**	**(6,917,863)**	**1,130,500**
Issuance of shares	30,000,000	1,500,000	(710,000)	-	-	790,000
Warrants exercised	8,200,000	410,000	-	-	-	410,000
Share-based compensation	-	-	-	128,227	-	128,227
Options exercised	175,000	27,494	-	(9,994)	-	17,500
Shares issued for exploration and evaluation assets acquisition	1,200,000	72,000	-	-	-	72,000
4:1 consolidation	(68,510,792)	-	-	-	-	-
Net loss for the period	-	-	-	-	(280,660)	(280,660)
Balance at July 31, 2011	22,836,933	9,342,136	-	123,954	(7,198,523)	2,267,567
Shares issued for exploration and evaluation assets acquisition	125,000	50,000	-	-	-	50,000
Share-based compensation	-	-	-	116,570	-	116,570
Net loss for the period	-	-	-	-	(253,248)	(253,248)
Balance at October 31, 2011	22,961,933	9,392,136	-	240,524	(7,451,771)	2,180,889
Issuance of shares	4,370,000	1,493,500	-	-	-	1,493,500
Share issuance costs	-	(73,533)	-	-	-	(73,533)
Shares issued for exploration and evaluation assets acquisition	425,000	140,500	-	-	-	140,500
Share-based compensation	-	-		364,762	-	364,762
Net loss for the period	-	-	-	-	(649,856)	(649,856)
Balance at July 31, 2012	27,756,933	10,952,603	-	605,286	(8,101,627)	3,456,262

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

1. NATURE OF BUSINESS AND GOING CONCERN

Tower Resources Ltd. (formerly Tower Energy Ltd.) ("the Company") is incorporated under the laws of British Columbia, Canada. The Company trades on the TSX Venture Exchange ("TSX-V") under the symbol TWR. The Company's head office, principal address and registered and records office is located at 530 – 510 Burrard Street, Vancouver, BC V6C 3A8. On September 8, 2011, the Company changed its name from Tower Energy Ltd. to Tower Resources Ltd. in order to reflect the change in its focus from oil & gas to mineral exploration.

The condensed interim financial statements ("Interim Financial Statements") of the Company are presented in Canadian dollars, which is the functional currency of the Company.

The Company's principal business activities include the acquisition and exploration of mineral exploration and evaluation assets domiciled in Canada. The Company has not yet determined whether any of these exploration and evaluation assets contain ore reserves that are economically recoverable. The recoverability of the amounts shown for exploration and evaluation assets is dependent upon the existence of economically recoverable reserves, the ability of the Company to obtain necessary financing to complete the development of those reserves and upon future profitable production. To date, the Company has not earned any revenues and is considered to be in the exploration stage.

These Interim Financial Statements have been prepared assuming the Company will continue on a going-concern basis. The Company has incurred losses since inception and the ability of the Company to continue as a going-concern depends upon its ability to raise adequate financing and/or to achieve profitable operations. These financial statements do not include adjustments to amounts and classifications of assets and liabilities that might be necessary should the Company be unable to continue as a going concern.

The continuance of the Company's operations is dependent on obtaining sufficient additional financing in order to realize the recoverability of the Company's investments in exploration and evaluation assets, which is dependent upon the existence of economically recoverable reserves and market prices for the underlying minerals. Management closely monitors commodity prices of precious metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company if favourable or adverse market conditions occur. Management estimates it has sufficient working capital to continue operations for the next 12 months.

The Company had the following deficits and working capital as at the following dates:

	July 31, 2012	October 31, 2011
	$	**$**
Deficit	(8,101,627)	(7,451,771)
Working capital	2,403,527	1,997,724

On September 20, 2011 the Company consolidated its capital stock on a 4:1 basis. All share and per share amounts have been restated to reflect the share consolidation unless otherwise indicated.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Statement of compliance and conversion to International Financial Reporting Standards

These condensed interim financial statements, including comparatives, have been prepared in accordance with International Accounting Standards ("IAS") 34, "Interim Financial Reporting" using accounting policies consistent with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") and Interpretations issued by the International Financial Reporting Interpretations Committee ("IFRIC").

This condensed interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Company for the year ended October 31, 2011. However, this interim financial report, being the third IFRS financial report, provides selected significant disclosures that are required in the annual financial statements under IFRS. The disclosures concerning the transition from Canadian Generally Accepted Accounting Principles ("Canadian GAAP") to IFRS are provided in Note 14.

Basis of presentation

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

Cash and cash equivalents

The Company considers all highly liquid instruments with maturity of three months or less at the time of issuance to be cash and cash equivalents as funds held in bank and demand deposits.

Functional currency

The functional currency of an entity is the currency of the primary economic environment in which the entity operates. The functional currency of the Company is the Canadian dollar. The reporting currency of the Company is the Canadian dollar.

Use of estimates

The preparation of financial statements in conformity with IFRS requires management to make certain estimates, judgments and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and the reported revenues and expenses during the period.

Although management uses historical experience and its best knowledge of the amount, events or actions to form the basis for judgments and estimates, actual results may differ from these estimates.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Use of estimates (cont'd)

The most significant accounts that require estimates as the basis for determining the stated amounts include the recoverability of exploration and evaluation assets and valuation of share-based compensation.

Critical judgments exercised in applying accounting policies that have the most significant effect on the amounts recognized in the financial statements are as follows:

Economic recoverability and probability of future economic benefits of exploration and evaluation assets
Management has determined that exploration, evaluation, and related costs incurred which were capitalized may have future economic benefits and may be economically recoverable. Management uses several criteria in its assessments of economic recoverability and probability of future economic benefits including, geologic and other technical information, a history of conversion of mineral deposits with similar characteristics to its own properties to proven and probable mineral reserves, the quality and capacity of existing infrastructure facilities, evaluation of permitting and environmental issues and local support for the project.

Determination of functional currency
The Company determines the functional currency through an analysis of several indicators such as expenses and cash flow, financing activities, and retention of operating cash flows.

Information about assumptions and estimation uncertainties that have a significant risk of resulting in material adjustments are as follows:

Valuation of share-based compensation
The Company uses the Black-Scholes Option Pricing Model for valuation of share-based compensation. Option pricing models require the input of subjective assumptions including expected price volatility, interest rate, and forfeiture rate. Changes in the input assumptions can materially affect the fair value estimate and the Company's earnings and equity reserves.

Income taxes
In assessing the probability of realizing income tax assets, management makes estimates related to expectation of future taxable income, applicable tax opportunities, expected timing of reversals of existing temporary differences and the likelihood that tax positions taken will be sustained upon examination by applicable tax authorities. In making its assessments, management gives additional weight to positive and negative evidence that can be objectively verified.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Exploration and evaluation assets

Pre-exploration costs are expensed as incurred.

Costs directly related to the exploration and evaluation of mineral properties are capitalized once the legal rights to explore the mineral properties are acquired or obtained. When the technical and commercial viability of a mineral resource has been demonstrated and a development decision has been made, the capitalized costs of the related property are transferred to mining assets and depreciated using the units of production method on commencement of commercial production.

If it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable, or the property is abandoned or management has determined an impairment in value, the property is written down to its recoverable amount. Exploration and evaluation assets are reviewed for impairment when facts and circumstances suggest that the carrying amount may exceed its recoverable amount.

Restoration and environmental obligations

The Company recognizes liabilities for statutory, contractual, constructive or legal obligations associated with the retirement of long-term assets, when those obligations result from the acquisition, construction, development or normal operation of the assets. The net present value of future restoration cost estimates arising from the decommissioning of plant and other site preparation work is capitalized to mineral property interests along with a corresponding increase in the restoration provision in the period incurred. Discount rates using a pre-tax rate that reflect the time value of money are used to calculate the net present value. The restoration asset will be depreciated on the same basis as other mining assets.

The Company's estimates of restoration costs could change as a result of changes in regulatory requirements, discount rates and assumptions regarding the amount and timing of the future expenditures. These changes are recorded directly to the related asset with a corresponding entry to the restoration provision. The Company's estimates are reviewed annually for changes in regulatory requirements, discount rates, effects of inflation and changes in estimates.

Changes in the net present value, excluding changes in amount and timing of the Company's estimates of reclamation costs, are charged to profit and loss for the period. The net present value of restoration costs arising from subsequent site damage that is incurred on an ongoing basis during production are charged to profit or loss in the period incurred.

As at July 31, 2012 and October 31, 2011, the Company recorded a rehabilitation obligation of $13,000 in relation to its oil and gas exploration and evaluation assets. The Company estimates that it has no significant restoration and environmental obligations related to its mineral exploration and evaluation assets.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Property and equipment

Equipment is stated at cost less accumulated depreciation and accumulated impairment losses. The cost of an item of equipment consists of the purchase price, any costs directly attributable to bringing the asset to the location and condition necessary for its intended use and an initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located.

Amortization for equipment is calculated using the declining balance method at the following annual rates:

Computer hardware	50%
Computer software	100%
Equipment	20%

In the year of acquisition, amortization is recorded at one-half the normal rate.

An item of equipment is derecognized upon disposal or when no future economic benefits are expected to arise from the continued use of the asset. Any gain or loss arising on disposal of the asset, determined as the difference between the net disposal proceeds and the carrying amount of the asset, is recognized in profit or loss.

Where an item of equipment is composed of major components with different useful lives, the components are accounted for as separate items of equipment. Expenditures incurred to replace a component of an item of equipment that is accounted for separately, including major inspection and overhaul expenditures, are capitalized.

Basic and diluted 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 shares outstanding during the reporting period. Diluted earnings (loss) per share is computed similarly to basic earnings (loss) per share except that the weighted average shares outstanding are increased to include additional shares for the assumed exercise of stock options and warrants, if dilutive. The number of additional shares is calculated by assuming that outstanding stock options and warrants were exercised and that the proceeds from such exercises were used to acquire common stock at the average market price during the reporting periods.

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. Warrants that are part of units are assigned a value based on the residual value, if any, and included in reserves.

Warrants that are issued as payment for agency fee or other transactions costs are accounted for as share-based payments.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Share-based payments

The Company operates an employee stock option plan. Share-based payments to employees are measured at the fair value of the instruments issued and amortized over the vesting periods. Share-based payments to non-employees are measured at the fair value of goods or services received or the fair value of the equity instruments issued, if it is determined the fair value of the goods or services cannot be reliably measured, and are recorded at the date the goods or services are received. The corresponding amount is recorded to the stock option reserve. The fair value of options is determined using the Black–Scholes pricing model which incorporates all market vesting conditions. The number of shares and options expected to vest is reviewed and adjusted at the end of each reporting period such that the amount recognized for services received as consideration for the equity instruments granted shall be based on the number of equity instruments that eventually vest.

The Company transfers the value of cancelled and expired unexercised vested stock options and compensatory warrants to deficit or share capital from reserves on the date of expiration, based on the nature of the item.

Impairment of non-financial assets

The carrying amount of the Company's assets (which include equipment and exploration and evaluation assets) is reviewed at each reporting date to determine whether there is any indication of impairment. If such indication exists, the recoverable amount of the asset is estimated in order to determine the extent of the impairment loss. An impairment loss is recognized whenever the carrying amount of an asset or its cash generating unit exceeds its recoverable amount. Impairment losses are recognized in the statement of comprehensive loss.

The recoverable amount of an asset is the greater of an asset's fair value less cost to sell and value in use. In assessing value in use, the estimated future cash flows are discounted to their present value using a pre-tax discount rate that reflects the current market assessments of the time value of money and the risks specific to the asset. For an asset that does not generate cash inflows largely independent of those from other assets, the recoverable amount is determined for the cash-generating unit to which the asset belongs.

An impairment loss is only reversed if there is an indication that the impairment loss may no longer exist and there has been a change in the estimates used to determine the recoverable amount, however, not to an amount higher than the carrying amount that would have been determined had no impairment loss been recognized in previous years. Assets that have an indefinite useful life are not subject to amortization and are tested annually for impairment.

Financial instruments

Financial assets
The Company classifies its financial assets into one of the following categories as follows:

Fair value through profit or loss - This category comprises derivatives and financial assets acquired principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss. The Company classifies cash as fair value through profit or loss.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Financial instruments (cont'd)

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at amortized cost using the effective interest method less any provision for impairment. The Company classifies its receivables as loans and receivables.

Held-to-maturity investments - 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 cost using the effective interest method less any provision for impairment.

Available-for-sale - 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 in other comprehensive income (loss). 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 accumulated other comprehensive income (loss) and recognized profit or loss.

All financial assets except those measured at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is objective evidence of impairment as a result of one or more events that have occurred after 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.

Financial liabilities
The Company classifies its financial liabilities into one of two categories as follows:

Fair value through profit or loss - This category comprises derivatives and financial liabilities incurred principally for the purpose of selling or repurchasing in the near term. They are carried at fair value with changes in fair value recognized in profit or loss.

Other financial liabilities - This category consists of liabilities carried at amortized cost using the effective interest method, and includes accounts payable and loan due to related parties.

As at July 31, 2012 and October 31, 2011, the Company did not have any derivative financial assets or liabilities.

Capital stock

Common shares are classified as equity. Transaction costs directly attributable to the issue of common shares and share options are recognized as a deduction from equity, net of any tax effects. Costs related to issuances not completed will be recorded as deferred financing costs if the completion of the transaction is considered likely; otherwise they are expensed as incurred.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Income taxes

Current income tax:
Current income tax assets and liabilities for the current period 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 reporting date, in the country where the Company operates and generates taxable income.

Current income tax relating to items recognized directly in other comprehensive income or equity is recognized in other comprehensive income or equity and not in profit or loss. Management periodically evaluates positions taken in the tax returns with respect to situations in which applicable tax regulations are subject to interpretation and establishes provisions where appropriate.

Deferred income tax:
Deferred income tax is provided using the balance sheet method on temporary differences at the reporting date between the tax bases of assets and liabilities and their carrying amounts for financial reporting purposes. The carrying amount of deferred income tax assets is reviewed at the end of each reporting period and recognized only to the extent that it is probable that sufficient taxable profit will be available to allow all or part of the deferred income tax asset to be utilized.

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 by the end of the reporting period.

Deferred income tax assets and deferred income tax liabilities are offset, if a legally enforceable right exists to set off current tax assets against current income tax liabilities and the deferred income taxes relate to the same taxable entity and the same taxation authority.

Flow-through shares:
On the issuance of flow-through shares, any premium received in excess of the closing market price of the Company's common shares is initially recorded as a flow-through premium liability and included as a current liability. Upon expenses being incurred, the Company derecognizes the liability and recognizes a deferred tax liability for the amount of tax deduction renounced to the shareholders. The premium is recognized as other income and related deferred tax is recognized as a tax provision.

The Company indemnifies the subscribers of flow-through shares against certain tax related amounts that become due related to their flow-through subscriptions.

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Accounting pronouncements not yet adopted

A number of new standards, amendments to standards and interpretations applicable to the Company are not yet effective for the period ended July 31, 2012 and have not been applied in preparing these financial statements. The Company is currently considering the possible effects of the new and revised standards which will be effective to the Company's financial statements for the year ending October 31, 2013 or later:

a) IFRS 7 – Financial Instruments: Disclosures applied to offsetting financial assets and financial liabilities in accordance with IAS 32. It is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

b) IFRS 9 – Financial Instruments: Classification and Measurement applies to classification and measurement of financial assets and liabilities as defined in IAS 39. It is effective for annual periods beginning on or after January 1, 2015 with early adoption permitted.

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

d) IFRS 11 – Joint Arrangements requires a venturer to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas joint operations, the venturer will recognize its share of the assets, liabilities, revenue and expenses of the joint operation. IFRS 11 supersedes IAS 31 Interests in Joint Ventures, and SIC-13 Jointly Controlled Entities—Non-monetary Contributions by venturers. It is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

e) IFRS 12 – Disclosure of Interest in Other Entities establishes disclosure requirements for interests in other entities, such as joint arrangements, associates, and special purpose vehicles and off balance sheet vehicles. The standard carries forward existing disclosures and also introduces additional disclosures addressing the nature of, and risks associated with, an entity's interests in other entities. It is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

f) IFRS 13 – Fair Value Measurement is a comprehensive standard that defines fair value, requires disclosure about fair value measurement and provides a framework for measuring fair value when it is required or permitted within the IFRS standards. It is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted. The Company does not expect any effect on the Company's financial statements.

g) IAS 27 – Separate Financial Statement addresses accounting for subsidiaries, jointly controlled entities and associates in non-consolidated financial statements. It is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

(Unaudited – Expressed in Canadian Dollars)

2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (cont'd)

Accounting pronouncements not yet adopted (cont'd)

h) IAS 28 – Investments in Associates and Joint Ventures has been amended to include joint ventures in its scope and to address the changes in IFRS 10 – 13. It is effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

i) IAS 1 – Presentation of Financial Statements amendment requires components of other comprehensive income (OCI) to be separately presented between those that may be reclassified to income and those that will not. The amendments are effective for annual periods beginning on or after July 1, 2012.

j) IAS 32 – Financial Instruments: Presentation amendment provides clarification on the application of offsetting rules. The amendments are effective for annual periods beginning on or after July 1, 2012.

3. RECEIVABLES

	July 31, 2012	**October 31, 2011**
	$	**$**
Harmonized sales tax recoverable	66,441	18,484
BC mineral exploration tax credit	12,656	12,656
	79,097	**31,140**

(Unaudited – Expressed in Canadian Dollars)

4. PROPERTY AND EQUIPMENT

	Computer hardware	Computer software	Equipment	Total
	$	$	$	$
Cost:				
At October 31, 2011	7,890	-	-	7,890
Additions	6,245	23,875	10,700	40,820
At July 31, 2012	14,135	23,875	10,700	48,710
Depreciation:				
At October 31, 2011	3,949	-	-	3,949
Charge for the period	2,649	8,953	802	12,404
At July 31, 2012	6,598	8,953	802	16,353
Net book value:				
At October 31, 2011	3,941	-	-	3,941
At July 31, 2012	**7,537**	**14,922**	**9,898**	**32,357**

	Computer hardware	Computer software	Equipment	Total
	$	$	$	$
Cost:				
At November 1, 2010	3,952	-	-	3,952
Additions	3,938	-	-	3,938
At October 31, 2011	7,890	-	-	7,890
Depreciation:				
At November 1, 2010	988	-	-	988
Charge for the year	2,961	-	-	2,961
At October 31, 2011	3,949	-	-	3,949
Net book value:				
At November 1, 2010	2,964	-	-	2,964
At October 31, 2011	**3,941**	**-**	**-**	**3,941**

(Unaudited – Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS

	Dragon	Dorado	JD	Baez	Straw	Waterloo	Total
	$	$	$	$	$	$	$
Balance, November 1, 2010	-	-	-	-	-	-	-
Acquisition costs	72,154	23,000	50,851	1,303	-	520	147,828
Deferred costs							
Assays	747	747	-	-	-	1,498	2,992
Annual mineral rights	-	10,333	-	-	-	-	10,333
Field supplies	33	570	909	-	-	788	2,300
Food	-	-	473	-	-	825	1,298
Geologist	2,250	2,250	4,500	-	-	10,500	19,500
Mapping	2,414	1,704	5,646	-	-	-	9,764
Travel	1,697	281	2,934	-	-	1,732	6,644
Vehicle	450	450	857	-	-	2,463	4,220
Total costs incurred during the period	79,745	39,335	66,170	1,303	-	18,326	204,879
B.C. mineral exploration tax credit recoverable	(1,518)	(1,200)	(4,596)	-	-	(5,342)	(12,656)
Balance, October 31, 2011	**78,227**	**38,135**	**61,574**	**1,303**	**-**	**12,984**	**192,223**
Acquisition costs	-	-	34,151	15,112	782	179,869	229,914
Deferred costs							
Assays	-	-	18,934	6,699	-	937	26,570
Annual mineral rights	-	-	46,836	-	-	-	46,836
Consulting services	-	-	31,200	8,000	-	5,600	44,800
Drilling	-	-	142,465	436	-	-	142,901
Equipment rental	-	-	2,755	190	-	-	2,945
Field supplies	-	-	14,802	3,791	-	956	19,549
Food	-	-	7,481	-	-	367	7,848
Geologist	-	-	91,097	17,400	-	13,900	122,397
Site development	-	-	78,323	-	-	-	78,323
Mapping	-	-	156,194	-	-	-	156,194
Travel	-	-	12,627	3,307	-	119	16,053
Vehicle	-	-	20,395	2,587	-	204	23,186
Total costs incurred during the period	-	-	657,260	57,522	782	201,952	917,516
Write off of exploration and evaluation assets	(78,227)	(38,135)	-	-	-	-	(116,362)
Balance, July 31, 2012	**-**	**-**	**718,834**	**58,825**	**782**	**214,936**	**993,377**

(Unaudited – Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS (cont'd)

DRAGON AND DORADO PROPERTIES

On June 26, 2011, the Company entered into an option agreement with Sidewinder Exploration Ltd. ("Sidewinder") to acquire up to a 100% interest in two mineral properties, comprising twenty-two (22) mineral claims, known as "Dragon" and "Dorado", located on Vancouver Island, British Columbia. Under the option agreement, the Company may earn an initial 75% interest in the properties by making cash payments of $45,000 and issuing 1,200,000 (300,000 post-consolidation) common shares to Sidewinder, in addition to funding aggregate exploration expenditures of $2,000,000 over a total 41-month period as follows:

Date	*Cash Payments*	*Number of Shares*	*Work Commitment*
	$		**$**
July 8, 2011 *(paid and issued – Note 9)*	20,000	1,200,000*	-
July 8, 2012	25,000	-	100,000
December 8, 2013	-	-	700,000
December 8, 2014	-	-	1,200,000

* Pre-consolidation

The Company has an exclusive right and option to earn an additional 25% interest in the properties (for an aggregate of 100%) by funding and delivering a Feasibility Study. The agreement is subject to a 2% Net Smelter Royalty ("NSR"), 1% of which may be purchased by the Company for $1,000,000.

During the period, the Company decided to discontinue the Dragon and Dorado projects, and as a result wrote off related exploration and evaluation assets of $116,362. On August 29, 2012, the Company terminated its option agreement with Sidewinder (Note 15).

JD PROPERTY

On September 7, 2011 the Company entered into an agreement to acquire the JD gold - silver property, comprised of eight (8) mineral claims, located in the Omineca mining division of British Columbia. Under the terms of the option agreement, the Company may acquire a 100% interest in the property by making cash payments of $200,000, and issuing 1,200,000 common shares over a 5-year period, to the vendors, in addition to funding aggregate exploration expenditures of $5,000,000 over a total 63-month period as follows:

Date	*Cash Payments*	*Number of Shares*	*Work Commitment*
	$		**$**
September 26, 2011 *(issued – Note 9)*	-	125,000	-
November 15, 2011 *(incurred)*	-	-	60,000
September 1, 2012 *(incurred)*	-	-	60,000
December 16, 2012	45,000	150,000	80,000
December 16, 2013	40,000	200,000	500,000
December 16, 2014	50,000	250,000	1,000,000
December 16, 2015	65,000	475,000	1,500,000
December 16, 2016	-	-	1,800,000

(Unaudited – Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS (cont'd)

JD PROPERTY (cont'd)

The agreement is subject to a 2% NSR, 1% of which can be purchased by the Company for $3,000,000. The Company will be responsible to file the related cash-in-lieu or assessment work documentation with the Province of British Columbia. Once the Company has earned the 100% interest, it will pay an advance royalty of $40,000 per year until it commences commercial production.

On April 11, 2012, the Company entered into an agreement to acquire a 100% interest in the Belle property located in the Omineca mining division of British Columbia adjoining the Company's JD property. Under the term of the option agreement, the Company may acquire a 100% interest in the property by making cash payment of $14,000 and issuing 150,000 common shares of the Company as follows:

Date	*Cash Payments*	*Number of Shares*
	$	
April 23, 2012 *(paid and issued – Note 9)*	14,000	25,000
April 18, 2013	-	25,000
April 18, 2014	-	25,000
April 18, 2015	-	25,000
April 18, 2016	-	50,000

The agreement is subject to a 2% NSR, of which 1% can be purchased by the Company for $2,000,000.

WATERLOO PROPERTY

On October 18, 2011 the Company entered into an agreement to acquire the Waterloo property, comprised of eighteen (18) mineral claims, located in the Osoyoos mining division of British Columbia. Under the terms of the option agreement, the Company may acquire a 100% interest in the property by making cash payments of $70,000 and issuing 400,000 common shares to the vendor, in addition to funding aggregate exploration expenditures of $2,000,000 over a total 41-month period as follows:

For a 75% interest (the "First Option"):

Date	*Cash Payments*	*Number of Shares*	*Work Commitment*
	$		**$**
December 23, 2011 *(paid and issued -Note 9)*	45,000	400,000	-
December 23, 2012	25,000	-	100,000
May 13, 2014	-	-	700,000
May 13, 2015	-	-	1,200,000

The agreement is subject to a 2% NSR, of which 1% can be purchased by the Company for $3,000,000. Upon completing and delivering a Feasibility Study, the Company will be deemed to have exercised the second option and to have earned an additional 25% Interest (for an aggregate 100% interest), subject to the Royalty Interest as defined below.

(Unaudited – Expressed in Canadian Dollars)

5. EXPLORATION AND EVALUATION ASSETS (cont'd)

WATERLOO PROPERTY (cont'd)

Once the Company has earned the 100% interest, it will pay an advance royalty of $40,000 per year until it commences commercial production.

The vice-president - exploration of the Company has an interest in the vendor.

BAEZ AND STRAW PROPERTIES

These properties are located in British Columbia and were acquired for nominal staking costs.

6. EXPLORATION AND EVALUATION ASSETS - OIL AND GAS

	July 31, 2012 and October 31, 2011 Acquisition Costs
Poplar Winstar Strachan	$ 1

POPLAR WINSTAR STRACHAN

On December 4, 2006, the Company entered into an agreement with Poplar Point Energy Ltd. ("Poplar"), to participate in a Participation Agreement between Poplar and Winstar Resources Ltd. ("Winstar"), dated October 20, 2006 wherein Poplar agreed to participate in the Winstar Strachan 8-10-38-10 W5M well in the West Central area of Alberta.

The Company paid $300,000 of the drilling, completion and tie in costs of the well to earn an equalization interest of 1.2366423 %. In addition, the Company accrued $3,000 in asset retirement obligations in the year ended October 31, 2008.

During the year ended October 31, 2009, management of the Company wrote down the value of the property to the estimated recoverable amount of $1.

Asset retirement obligations have been recorded based on the Company's proportionate share of obligations estimated by the operators of the properties. The estimated values of the obligations have not been discounted as they are immaterial and an estimate of the timing of the future cash flows is not determinable. The carrying cost has been written off.

(Unaudited – Expressed in Canadian Dollars)

7. RECLAMATION BONDS

In relation to the JD and Baez properties, the Company has posted a reclamation bonds totalling $40,000 (October 31, 2011 - $Nil).

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

	July 31, 2012	October 31, 2011
	$	$
Accounts payable	362,489	58,950
Accrued liabilities	13,074	-
	375,563	**58,950**

9. CAPITAL STOCK AND RESERVES

Authorized share capital: unlimited common shares without par value.

Issued share capital:

In September 2011, the Company consolidated its capital on a 4:1 basis and cancelled the authorized 1,000,000 preference shares. All share and per share amounts have been restated to reflect the share consolidation unless otherwise indicated.

In November 2010, the Company closed a private placement of 30,000,000 (7,500,000 post-consolidation) units at a price of $0.05 ($0.20 post consolidation) per unit and has received the sum of $1,500,000 as gross proceeds of the private placement. Each unit is comprised of one common share and one share purchase warrant which entitles the holder to purchase one additional common share of the company for $0.10 ($0.40 post-consolidation) up to November 2, 2015.

In June 2011, Company issued 1,200,000 (300,000 post-consolidation) common shares for the acquisition of the Dragon and Dorado property (Note 5).

In September, 2011 Company issued 125,000 common shares for the acquisition of the JD property (Note 5).

In December 2011, the Company completed a non-brokered private placement of 2,545,000 flow-through common shares at a price of $0.40 per share for gross proceeds of $1,018,000. The flow-through common shares had an associated flow-through premium liability of $254,500 on issuance. The Company incurred fees of $16,340 related to this financing.

In December 2011, the Company also issued 400,000 shares pursuant to the Waterloo property option agreement (Note 5).

In April 2012, the Company completed a non-brokered private placement of 1,825,000 common shares at a price of $0.40 per share for gross proceeds of $730,000. The Company paid a finder's fee of $52,793 and incurred fees of $4,400 related to this private placement.

9. CAPITAL STOCK AND RESERVES (cont'd)

Issued share capital (cont'd):

In April 2012, the Company also issued 25,000 shares pursuant to the Belle property option agreement (Note 5).

Stock Options

On November 19, 2010, the Company adopted a new incentive stock option plan (the "Plan"). The essential elements of the Plan provide that the aggregate number of shares of the Company's capital stock issuable pursuant to options granted under the Plan may not exceed ten percent of the issued and outstanding common shares of the Company at the time an option is granted. Options granted under the Plan will have a maximum term of ten years. The exercise price of options granted under the Plan shall be set by the Board of Directors on the effective date of the option and will not be less than the Discounted Market Price as defined by the TSX Venture Exchange. Vesting of the Options shall be at the discretion of the Board of Directors. All outstanding options granted prior to November 19, 2010 have been rolled into and deemed granted under the Plan.

In November 2010, the Company granted 1,900,000 (475,000 post-consolidation) incentive stock options to two directors and one consultant of the Company. The options are exercisable at $0.10 ($0.40 post-consolidation) until November 10, 2013 with 12.5% vesting at the date of grant and an additional 12.5% vesting every three months thereafter. The total fair value of $161,169 was estimated using the Black-Scholes option pricing model assuming an expected life of 3 years, a risk-free interest rate of 1.73%, an expected volatility of 164% and a forfeiture rate of nil.

In August 2011, the Company granted 750,000 (187,500 post-consolidation) incentive stock options to the Vice President of the Company. The incentive stock options are priced at $0.10 ($0.40 post-consolidation) each and may be exercised for a period of three years from the date of grant with 12.5% of the options vesting at the date of grant and an additional 12.5% vesting every three months thereafter. The fair value of $64,103 was calculated using the Black-Scholes option pricing model with a risk-free interest rate of 1.12%, expected volatility of 167% and a forfeiture rate of nil.

In September 2011, the Company granted 1,000,000 incentive stock options to four directors, an officer and two consultants of the Company. The incentive stock options are priced at $0.35 each and may be exercised for a period of five years from the date of grant with 12.5% of the options vesting at the date of grant and an additional 12.5% vesting every three months thereafter. The fair value of $311,098 was calculated using the Black-Scholes option pricing model with a risk-free interest rate of 1.4%, expected volatility of 141% and a forfeiture rate of nil.

In December 2011, the Company granted 100,000 incentive stock options to a consultant of the Company. The incentive stock options are priced at $0.35 each and may be exercised for a period of five years from the date of grant with 12.5% of the options vesting at the date of grant and an additional 12.5% vesting every three months thereafter. The fair value of $31,356 was calculated using the Black-Scholes option pricing model with a risk-free interest rate of 1.33%, dividends of nil, expected volatility of 144% and a forfeiture rate of nil.

(Unaudited – Expressed in Canadian Dollars)

9. CAPITAL STOCK AND RESERVES (cont'd)

Stock Options (cont'd)

In February 2012, the Company granted 200,000 incentive stock options to two consultants of the Company. The incentive stock options are priced at $0.35 each and may be exercised for a period of five years from the date of grant with 12.5% of the options vesting at the date of grant and an additional 12.5% vesting every three months thereafter. The fair value of $81,516 was calculated using the Black-Scholes option pricing model with a risk-free interest rate of 1.50%, dividends of nil, and expected volatility of 190% and a forfeiture rate of nil.

In March 2012, the Company granted 100,000 incentive stock options to a consultant of the Company. The incentive stock options are priced at $0.35 each and may be exercised for a period of five years from the date of grant with 12.5% of the options vesting at the date of grant and an additional 12.5% vesting every three months thereafter. The fair value of $46,660 was calculated using the Black-Scholes option pricing model with a risk-free interest rate of 1.65%, dividends of nil, expected volatility of 189%, and a forfeiture rate of nil.

In April 2012, the Company granted 50,000 incentive stock options to a consultant of the Company. The incentive stock options are priced at $0.45 each and may be exercised for a period of five years from the date of grant with 12.5% of the options vesting at the date of grant and an additional 12.5% vesting every three months thereafter. The fair value of $21,761 was calculated using the Black-Scholes option pricing model with a risk-free interest rate of 1.64%, dividends of nil, expected volatility of 189%, and a forfeiture rate of nil.

In May 2012, the Company granted 250,000 incentive stock options to directors and officers of the Company. The incentive stock options are priced at $0.30 each and may be exercised for a period of five years from the date of grant with 12.5% of the options vesting at the date of grant and an additional 12.5% vesting every three months thereafter. The fair value of $75,505 was calculated using the Black-Scholes option pricing model with a risk-free interest rate of 1.31%, dividends of nil, expected volatility of 189%, and a forfeiture rate of nil.

A summary of post-consolidated stock options activities are as follows:

	Number of options	Weighted average exercise price
		$
Outstanding at October 31, 2010	25,000	0.40
Granted	1,662,500	0.37
Exercised	(43,750)	0.40
Outstanding at October 31, 2011	1,643,750	0.37
Granted	700,000	0.34
Outstanding at July 31, 2012	2,343,750	0.36

(Unaudited – Expressed in Canadian Dollars)

9. CAPITAL STOCK AND RESERVES (cont'd)

Stock Options (cont'd)

The Company has outstanding post-consolidated options entitling the holder to purchase an aggregate of common shares at July 31, 2012 as follows:

Exercise Price	Number Outstanding	Number Exercisable	Expiry Date
$			
0.40	456,250	396,875	November 10, 2013
0.40	187,500	93,750	August 12, 2014
0.35	1,000,000	500,000	September 29, 2016
0.35	100,000	37,500	December 9, 2016
0.35	200,000	50,000	February 20, 2017
0.35	100,000	25,000	March 23, 2017
0.45	50,000	12,500	April 5, 2017
0.30	250,000	31,250	May 24, 2017
	2,343,750	1,146,875	

Warrants:

A summary of post-consolidated share purchase warrant activities are as follows:

	Number of warrants	Weighted average exercise price
		$
Outstanding and exercisable at October 31, 2010	6,250,000	0.40
Issued	7,500,000	0.40
Exercised	(2,050,000)	0.40
Outstanding and exercisable at October 31, 2011 and July 31, 2012	11,700,000	0.40

The Company has outstanding post-consolidated warrants entitling the holders to purchase an aggregate of 11,700,000 common shares at July 31, 2012 as follows:

Exercise Price	Number Outstanding	Expiry Date
$		
0.40	4,200,000	December 1, 2014
0.40	7,500,000	November 2, 2015
	11,700,000	

(Unaudited – Expressed in Canadian Dollars)

10. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the nine months ended July 31, 2012:

a) "Office and miscellaneous" includes rent of $58,752 (2011 - $6,750) and other office expenses of $2,227 (2011 - $nil) paid or accrued to a company related by common directors and officers.

Summary of key management personnel compensation:

	For the nine months ended July 31,	
	2012	**2011**
	$	**$**
Accounting and audit	5,080	-
Management fees	20,000	-
Office and miscellaneous	5,000	-
Consulting fees	38,500	18,000
Exploration and evaluation assets expenditures	63,000	-
Share-based compensation	227,694	110,892
	359,284	**128,892**

The above transactions have been in the normal course of operations and, have been valued in the financial statements at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

Amounts owing to related parties are as follows:

	July 31, 2012	**October 31, 2011**
	$	**$**
i. Company with a director in common for expenses	9,928	28,645
ii. CEO for expenses	14,283	4,042
iii. CFO for expenses	15,784	1,978
iv. Former director for loans	216	216
	40,211	**34,881**

Amounts due to related parties are unsecured, non-interest-bearing and have no specific terms of repayment; accordingly, fair market value cannot be determined.

11. MANAGEMENT OF FINANCIAL RISK

The Company's financial instruments are exposed to certain financial risks, which include credit risk, market risk and liquidity risk.

Credit Risk
The Company is exposed to industry credit risks arising from its cash holdings and accounts receivable. The Company manages credit risk by placing cash with major Canadian financial institutions. The Company's receivables consist of a provincial mining tax credit and harmonized sales tax recoverable due from the Federal Government of Canada. Management believes that credit risk related to these amounts is nominal.

Liquidity risk
Liquidity risk is the risk that the Company will not have sufficient funds to meet its financial obligations when they are due. To manage liquidity risk, the Company reviews additional sources of capital and replacement debt structures to continue its operations and discharge its commitments as they become due.

Market risk

(a) Price risk

The Company is exposed to price risk with respect to commodity and equity prices. Equity price risk is defined as the potential adverse impact on the Company's earnings due to movements in individual equity prices or general movements in the level of the stock market. Commodity price risk is defined as the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices of gold and other precious and base metals, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company. Fluctuations in pricing may be significant.

(b) Interest rate risk
Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. As the Company's cash earns interest at floating rates, the Company is exposed to interest rate risk. A 1% increase or decrease in interest rates will result in appropriately $13,500 annualized increase or decrease in net loss.

(c) Foreign currency risk
The Company is exposed to foreign currency risk on fluctuations related to cash, receivables and accounts payable and accrued liabilities that are denominated in United States Dollars. However, management believes the risk is not currently significant.

12. SEGMENTED INFORMATION

The Company has one geographic segment, being Canada, and one operating segment, being the acquisition and exploration of exploration and evaluation assets.

13. CAPITAL MANAGEMENT

The Company manages its cash and cash equivalents, amounts due to and from related parties and common shares as capital. The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern in order to pursue the development of its properties and to maintain a flexible capital structure which optimizes the cost of capital at an acceptable risk.

The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. To maintain or adjust the capital structure, the Company may attempt to issue new shares, issue new debt, or acquire or dispose of assets. In order to maximize ongoing development efforts, the Company does not pay out dividends.

There were no changes in the Company's approach to capital management during the nine months ended July 31, 2012 or the year ended October 31, 2011. The Company is not subject to externally imposed capital requirements.

14. TRANSITION TO IFRS

As stated in Note 2, these Interim Financial Statements are for the period covered by the Company's first annual financial statements prepared in accordance with IFRS. The accounting policies in Note 2 have been applied in preparing the Interim Financial Statements for the periods ended July 31, 2012 and 2011. In Note 12 of the January 31, 2012 restated condensed interim financial statements, the Company reported the impact of the transition to IFRS to the opening IFRS statement of financial position on November 1, 2010 (the "Transition Date") and for the year ended October 31, 2011.

In preparing the statement of financial position and the financial statements for the interim period ended July 31, 2011, the Company has adjusted amounts reported previously in financial statements that were prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables. 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 elected to take the following IFRS 1 optional exemptions:

- To apply the requirements of IFRS 2, Share-based payments, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date;
- To apply the requirements of IFRS 23, Borrowing Costs, only to transactions after the Transition Date; and
- To apply the requirements of IAS 37, Provisions, Contingent Liabilities and Contingent Assets, as at the Transition Date. The Company re-measured all provisions, and estimated the amount to be included in the cost of the related asset by discounting the liability to the date at which the liability first arose. This was done using best estimates of the historical risk-adjusted discount rates, and recalculated the accumulated depreciation, depletion, and amortization under IFRS up to the Transition Date.

(Unaudited – Expressed in Canadian Dollars)

14. TRANSITION TO IFRS (cont'd)

The reconciliation between Canadian GAAP and IFRS statement of financial position at July 31, 2011 is provided below:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS				
		$	**$**	**$**
Current				
Cash and cash equivalents		2,214,726	-	2,214,726
Accounts receivable		44	-	44
Harmonized sales tax recoverable		5,883	-	5,883
Prepaid expenses		2,745	-	2,745
		2,223,398	-	2,223,398
Equipment		4,068	-	4,068
Mineral properties		92,000	-	92,000
Oil and gas properties		1	-	1
TOTAL ASSETS		**2,319,467**	**-**	**2,319,467**
LIABILITIES				
Current				
Accounts payable and accrued liabilities		27,770	-	27,770
Due to related parties		11,130	-	11,130
		38,900	-	38,900
Asset retirement obligations		13,000	-	13,000
TOTAL LIABILITIES		**51,900**	**-**	**51,900**
SHAREHOLDERS' EQUITY				
Share capital		9,332,142	9,994	9,342,136
Reserves	(a)	437,449	(313,495)	123,954
Deficit	(a)	(7,502,024)	303,501	(7,198,523)
TOTAL SHAREHOLDERS' EQUITY		2,267,567	-	2,267,567
TOTAL LIABILITIES AND SHAREHOLDERS' EQUITY		**2,319,467**	**-**	**2,319,467**

(Unaudited – Expressed in Canadian Dollars)

14. TRANSITION TO IFRS (cont'd)

The reconciliation between Canadian GAAP and IFRS statement of comprehensive loss for the nine months ended July 31, 2011 is provided below:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
		$	**$**	**$**
Expenses				
Accounting and audit		20,685	-	20,685
Consulting fees		19,050	-	19,050
Filing fees		13,675	-	13,675
Legal fees		32,701	-	32,701
Management fees - stock-based	(a)	64,200	64,027	128,227
Parking		5,966	-	5,966
Property examination costs		30,679	-	30,679
Office and miscellaneous		27,533	-	27,533
Transfer agent		7,146	-	7,146
Travel and promotion		14,220	-	14,220
Telephone		6,665	-	6,665
Loss before other items		(242,520)	(64,027)	(306,547)
Other items				
Net oil and gas gain (loss)		(8)	-	(8)
Gain on debt settlement		10,472	-	10,472
Foreign exchange loss		(281)	-	(281)
Interest income		15,704	-	15,704
		25,887	-	25,887
Net loss and comprehensive loss for the period		(216,633)	(64,027)	(280,660)
Basic and diluted loss per share		(0.01)	-	(0.01)
Weighted average number of common shares outstanding		22,270,425	-	22,270,425

(Unaudited – Expressed in Canadian Dollars)

14. TRANSITION TO IFRS (cont'd)

The reconciliation between Canadian GAAP and IFRS statement of comprehensive loss for the three months ended July 31, 2011 is provided below:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
		$	**$**	**$**
Expenses				
Accounting and audit		4,870	-	4,870
Consulting fees		6,000	-	6,000
Filing fees		1,685	-	1,685
Legal fees		14,016	-	14,016
Management fees - stock-based	(a)	19,616	3,708	23,324
Parking		2,198	-	2,198
Property examination costs		12,898	-	12,898
Office and miscellaneous		8,819	-	8,819
Transfer agent		828	-	828
Travel and promotion		2,949	-	2,949
Telephone		2,917	-	2,917
Loss before other items		(76,796)	(3,708)	(80,504)
Other item				
Net oil and gas gain (loss)		44	-	44
Gain on debt settlement		10,472	-	10,472
Foreign exchange loss		(281)	-	(281)
Interest income		12,926	-	12,926
		23,161	-	23,161
Net loss and comprehensive loss for the period		(53,635)	(3,708)	(57,343)
Basic and diluted loss per share		(0.00)	-	(0.00)
Weighted average number of common shares outstanding		22,650,382	-	22,650,382

(Unaudited – Expressed in Canadian Dollars)

14. TRANSITION TO IFRS (cont'd)

The reconciliation between Canadian GAAP and IFRS statement of cash flows for the nine months ended July 31, 2011 is provided below:

	Note	Canadian GAAP	Effect of transition to IFRS	IFRS
		$	$	$
Cash flows used in operating activities				
Net loss for the period	(a)	(216,633)	(64,027)	(280,660)
Items not affecting cash and cash equivalents:				
Share-based compensation	(a)	64,200	64,027	128,227
Accrued interest		205	-	205
Changes in non-cash working capital items				
Harmonized sales tax recoverable		(682)	-	(682)
Prepaid expenses		(2,745)	-	(2,745)
Accounts payable and accrued liabilities		(20,010)	-	(20,010)
Accounts receivable		(44)	-	(44)
		(175,709)	-	(175,709)
Cash flows used in investing activities				
Repayment of note receivable		27,500	-	27,500
Evaluation and exploration assets expenditures		(20,000)	-	(20,000)
Acquisition of property and equipment		(1,104)	-	(1,104)
		6,396	-	6,396
Cash flows from financing activities				
Proceeds from share issued		1,217,500	-	1,217,500
Related party advances (net of repayments)		4,675	-	4,675
		1,222,175	-	1,222,175
Net change in cash and cash equivalents		1,052,862	-	1,052,862
Cash and cash equivalents, beginning of period		1,161,864	-	1,161,864
Cash and cash equivalents, end of period		2,214,726	-	2,214,726

a) Share-based payments

The Company grants stock options that have a graded vesting schedule. Under IFRS, unlike Canadian GAAP, the Company treats each installment as its own award. Therefore, each installment is measured and recognized separately.

On transition to IFRS the Company adjusted share-based payments whereby amounts recorded for expired unexercised stock options are transferred to deficit. Previously, the Company's Canadian GAAP policy was to leave such amounts in contributed surplus.

15. SUBSEQUENT EVENTS

On August 29, 2012, the Company terminated its option agreement on the Dragon and Dorado properties.