REGAL RESOURCES INC.
RESPONSIBLE EXPLORATION & DEVELOPMENT

Consolidated Financial Statements

Year Ended July 31, 2012

(Expressed in Canadian Dollars)

INDEX

SmytheRatcliffe
CHARTERED ACCOUNTANTS

INDEPENDENT AUDITORS' REPORT

TO THE SHAREHOLDERS OF REGAL RESOURCES INC.

We have audited the accompanying consolidated financial statements of Regal Resources Inc., 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 comprehensive loss, changes in equity and cash flows for the years ended July 31, 2012 and July 31, 2011, and a summary of significant accounting policies and other explanatory information.

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

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 generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audit to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the 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 evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Regal Resources Inc. 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 July 31, 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 describes matters and conditions that indicate the existence of material uncertainties that may cast significant doubt about the Company's ability to continue as a going concern.

Smythe Ratcliffe LLP
Chartered Accountants

Vancouver, British Columbia
November 28, 2012

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Regal Resources Inc.
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars)

	Note	July 31, 2012 $	July 31, 2011 $	August 1, 2010 $
ASSETS				
Current				
Cash		68,663	1,719,130	5,311
Receivables		108,593	44,633	5,061
Prepaid expenses		16,125	32,925	-
Loan receivable	6	110,511	100,000	-
		303,892	1,896,688	10,372
Non-current assets				
Reclamation bond	7	20,188	19,229	21,291
Equipment	8	3,282	-	-
Mineral property interests	7	1,160,081	826,001	415,921
		1,183,551	845,230	437,212
		1,487,443	2,741,918	447,584
LIABILITIES				
Current				
Accounts payable and accrued liabilities		155,826	49,025	42,801
Due to related parties		3,866	13,037	12,500
		159,692	62,062	55,301
EQUITY				
Share subscriptions received	9	130,000	37,500	10,000
Share capital	9	3,849,772	3,598,542	878,795
Reserves		1,266,671	1,033,933	138,725
Deficit		(3,918,692)	(1,990,119)	(635,237)
		1,327,751	2,679,856	392,283
		1,487,443	2,741,918	447,584

APPROVED ON BEHALF OF THE BOARD OF DIRECTORS:

"Greg Thomas", Director   *"Fred Baker"*, Director

- See Accompanying Notes –

Regal Resources Inc.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS

Years Ended July 31

(Expressed in Canadian Dollars)

	Note	2012 $	2011 $
Expenses			
Administration services	10	88,674	74,050
Depreciation	8	473	-
Foreign exchange loss (gain)		(47,177)	39,405
Investor relations	10	156,461	100,512
Management fees	10	211,000	136,324
Office and miscellaneous		74,128	7,430
Professional fees		106,782	50,678
Regulatory fees		19,010	21,906
Rent	10(b)	30,778	25,751
Share-based payments	10	267,268	847,800
Travel and entertainment		18,862	35,338
Interest (income) expense	10(c)	(11,018)	15,688
Write-off of mineral property interest		1,013,332	-
Net loss and comprehensive loss		(1,928,573)	(1,354,882)
Basic and diluted loss per share		(0.06)	(0.07)
Weighted average number of common shares outstanding		30,794,295	20,087,045

- See Accompanying Notes -

Regal Resources Inc. (an exploration stage company)

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY

(Expressed in Canadian Dollars)

	Number of Shares	Amount $	Share Subscriptions Received $	Reserves $	Deficit $	Total Equity $
Balance at July 31, 2010	**13,259,713**	**878,795**	**10,000**	**138,725**	**(635,237)**	**392,283**
Share subscription received	-	-	37,500	-	-	37,500
Shares issued for cash	11,221,264	2,280,316	(10,000)	-	-	2,270,316
Shares issued for finder's fees	21,000	2,100	-	-	-	2,100
Shares issued on exercise of options	150,000	15,000	-	-	-	15,000
Shares issued for mineral property interests	200,000	24,000	-	-	-	24,000
Shares issued on exercise of warrants	5,054,162	620,391	-	-	-	620,391
Fair value of options exercised	-	9,477	-	(9,477)	-	-
Shares issued for debt	140,000	12,600	-	-	-	12,600
Fair value of warrants exercised	-	25,767	-	(25,767)	-	-
Share issue costs	-	(269,904)	-	82,652	-	(187,252)
Share-based payments	-	-	-	847,800	-	847,800
Net loss and comprehensive loss	-	-	-	-	(1,354,882)	(1,354,882)
Balance at July 31, 2011	**30,046,139**	**3,598,542**	**37,500**	**1,033,933**	**(1,990,119)**	**2,679,856**
Share subscriptions received	-	-	130,000	-	-	130,000
Shares issued on exercise of options	250,000	37,500	(37,500)	-	-	-
Shares issued for mineral property interests	225,000	48,000	-	-	-	48,000
Shares issued on exercise of warrants	875,000	131,250	-	-	-	131,250
Proceeds paid on options cancelled	-	-	-	(50)	-	(50)
Fair value of options exercised	-	34,480	-	(34,480)	-	-
Share-based payments	-	-	-	267,268	-	267,268
Net loss and comprehensive loss	-	-	-	-	(1,928,573)	(1,928,573)
Balance at July 31, 2012	**31,396,139**	**3,849,772**	**130,000**	**1,266,671**	**(3,918,692)**	**1,327,751**

- See Accompanying Notes -

Regal Resources Inc.

CONSOLIDATED STATEMENTS OF CASH FLOWS

Years Ended July 31

(Expressed in Canadian Dollars)

	2012 $	2011 $
OPERATING ACTIVITIES:		
Net loss for the year	(1,928,573)	(1,354,882)
Items not involving cash:		
Write-off mineral property interest	1,013,332	-
Depreciation	473	-
Foreign exchange on reclamation bond	(959)	2,062
Share-based payments	267,268	847,800
Common shares bonus for short-term loan	-	12,600
Accrued interest income	(10,511)	-
Changes in non-cash working capital:		
Receivables	(63,960)	(39,572)
Prepaid expenses	16,800	(32,925)
Accounts payable and accrued liabilities	98,225	(24,038)
Due to related parties	(9,171)	537
Net cash used in operating activities	(617,076)	(588,418)
INVESTING ACTIVITIES:		
Expenditures on mineral property interests	(1,290,836)	(355,818)
Equipment purchase	(3,755)	-
Loan receivable	-	(100,000)
Net cash used in investing activities	(1,294,591)	(455,818)
FINANCING ACTIVITIES:		
Proceeds from short-term loan	-	70,000
Repayment of short-term loan	-	(70,000)
Shares issued for cash	-	2,280,316
Share subscriptions received	130,000	37,500
Proceeds from exercise of warrants and options	131,250	625,391
Shares issue costs	-	(185,152)
Stock option termination payments	(50)	-
Net cash provided by financing activities	261,200	2,758,055
Increase (decrease) in cash	(1,650,467)	1,713,819
Cash at beginning of year	1,719,130	5,311
Cash at end of year	68,663	1,719,130
Supplemental Cash Flow Information		
Fair value of warrants and options exercised	34,480	35,244
Expenditures on mineral property interests accrued in accounts payable and accrued liabilities	38,838	30,262
Common shares issued for mineral property interests	48,000	24,000
Common shares issued for finder's fees	-	2,100
Agent warrants issued for private placement	-	82,652

- See Accompanying Notes –

1. NATURE OF OPERATIONS AND GOING CONCERN

Regal Resources Inc. (the "Company") was incorporated under the *Business Corporations Act* of British Columbia on January 24, 2006 and maintains its head office and registered office at 203 – 2780 Granville Street, Vancouver, British Columbia, Canada, V6H 3J3. The Company and its wholly-owned subsidiary, Regal Resources USA, Inc., are engaged in the acquisition, exploration and development of mineral properties. The Company's principal properties are located in Arizona, USA.

These consolidated financial statements have been prepared in compliance with International Financial Reporting Standards ("IFRS") as issued by the International Accounting Standards Board ("IASB") with the assumption that the Company will be able to realize its assets and discharge its liabilities in the normal course of business rather than through a process of forced liquidation.

The business of exploring for minerals involves a high degree of risk and there can be no assurance that any of the Company's current or future exploration programs will result in profitable mining operations. The recoverability of amounts shown for mineral property interests is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain financing to complete their development and establish future profitable operations or realize proceeds from their sale.

The Company reported a net loss of $1,928,573 for the year ended July 31, 2012 (2011 - $1,354,882) and has an accumulated deficit of $3,918,692 as at July 31, 2012 (July 31, 2011 - $1,990,119; August 1, 2010 - $635,237). As at July 31, 2012, the Company had $68,663 (July 31, 2011 - $1,719,130; August 1, 2010 - $5,311) in cash and working capital surplus of $144,200 (July 31, 2011 - $1,834,626; August 1, 2010 - $44,929 deficiency). The Company has sustained losses from operations, and has an ongoing requirement for capital investment for its mineral property interests. The Company's ability to continue as a going concern is dependent primarily upon its ability to obtain necessary financing from the issuance of shares, borrowing or from other sources. Management of the Company believes that these conditions will be met. These consolidated financial statements do not include any adjustments related to the recoverability of assets and classification of liabilities that might be necessary should the Company be unable to continue as a going concern.

2. BASIC OF PRESENTATION

(a) Statement of Compliance

These consolidated financial statements have been prepared in accordance with IFRS as issued by the IASB. Effective August 1, 2011, the Company's consolidated financial statements have been prepared in accordance with IFRS, and IFRS 1 *First-time Adoption of International Financial Reporting Standards* has been applied. In previous years, the Company prepared its consolidated financial statements in accordance with Canadian generally accepted accounting principles in effect prior to August 1, 2011 ("GAAP"). There were no changes by the Company to its financial reporting on conversion to IFRS from Canadian GAAP (see note 14).

The consolidated financial statements of the Company were authorized for issue by the Board of Directors on November 28, 2012.

(b) Basic of Measurement

The consolidated financial statements are prepared on a historical cost basis, except as detailed in the accounting policies disclosed in note 3. The accounting policies described in note 3 have been applied consistently to all periods presented in these consolidated financial statements, except for the transition date IFRS consolidated statement of financial position, which has utilized certain exemptions available under IFRS 1 (see note 14).

2. BASIC OF PRESENTATION (Continued)

(c) Foreign Currency Translation
Amounts recorded in foreign currency are translated into Canadian dollars as follows:

(i) Monetary assets and liabilities, at the rate of exchange in effect as at the date of the consolidated statement of financial position;

(ii) Non-monetary assets and liabilities, at the exchange rates prevailing at the time of the acquisition of the assets or assumption of the liabilities; and

(iii) Revenues and expenses (excluding depreciation, which is translated at the same rate as the related asset), at the rates of exchange at the date of the transaction.

Gains and losses arising from this translation of foreign currency are included in the determination of net loss.

(d) Critical Accounting Estimates
Critical accounting estimates are estimates and assumptions made by management that may result in material adjustments to the carrying amounts of assets and liabilities within the next financial year.

(i) Impairment of mineral property interests

The Company assesses each cash-generating unit annually to determine whether any indication of impairment exists. Where an indicator of impairment exists, a formal estimate of the recoverable amount is made, which is considered the higher of fair value less cost to sell and value in use. These assessments require the use of estimates and assumptions such as long-term commodity prices, discount rates, future capital requirements, exploration potential and operating performance. Fair value is determined as the amount that would be obtained from the sale of the asset in an arm’s length transaction between knowledgeable and willing parties. Fair value for mineral property interests is generally determined as the present value of estimated future cash flows arising from the continued use of the asset, which includes estimates such as the cost of future expansion plans and eventual disposal, using assumptions that an independent market participant may take into account. Cash flows are discounted to their present value of money and the risks specific to the asset.

(ii) Rehabilitation provision

The Company records the present value of estimated costs of legal and constructive obligations required to restore operating locations in the period in which the obligation is incurred.

The obligation generally arises when the asset is installed or the ground/environment is disturbed at the production location. When the liability is initially recognized, the present value of estimated costs is capitalized by increasing the carrying amount of related mining assets to the extent that it was incurred by the development/construction of the mine. Over time, the discounted liability is increased for the change in present value based on the discount rates that reflect current market assessments and the risks specific to the liability.

The Company has determined that no impairment of mineral property interests and no rehabilitation provision are applicable.

3. SIGNIFICANT ACCOUNTING POLICIES

The significant accounting policies followed by the Company are summarized as follows:

(a) Cash and Cash Equivalents
Cash and cash equivalents are comprised of cash in banks and all short-term investments with original terms to maturity of three months or less.

(b) Mineral Property Interests
The Company defers all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition costs and exploration and development expenditures, net of any recoveries. Costs are deferred until such time as the extent of mineralization has been determined and mineral property interests are either developed or the Company's mineral rights are allowed to lapse.

All deferred mineral property expenditures are reviewed quarterly, on a property-by-property basis, to consider whether there are any conditions that may indicate impairment. When the carrying value of a property exceeds its net recoverable amount that may be estimated by quantifiable evidence of an economic geological resource or reserve, joint venture expenditure commitments or the Company's assessment of its ability to sell the interest for an amount exceeding the deferred costs, provision is made for the impairment in value.

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

(c) Equipment
Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Cost comprises the fair value of consideration given to acquire an asset and includes the direct charges associated with bringing the asset to the location and condition necessary for putting it into use.

When parts of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Depreciation is calculated over the estimated useful life of the assets using the declining-balance method at an annual rate of 30% for equipment. Depreciation is claimed at one-half the stated rates in the year of acquisition and no depreciation is claimed in the year of disposition.

(d) Share-based Payments
The Company accounts for share-based payments using a fair value based method with respect to all share-based payments measured and recognized, to directors, employees and non-employees.

The fair value of the options is measured at grant date, using the Black-Scholes option pricing model, and is recognized over the period that the options are earned.

For directors and employees, the fair value of the options is measured at the date of grant.

For non-employees, the fair value of the options is measured on the earlier of the date at which the counterparty performance is completed or the date the performance commitment is reached or the date at which the equity instruments are granted if they are fully vested and non-forfeitable.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(d) Share-based Payments (Continued)
The fair value of the options is accrued and charged either to operations or mineral interests, with the offset credit to reserves. For directors and employees, the options are recognized over the vesting period, and for non-employees the options are recognized over the related service period. If and when the options are ultimately exercised, the applicable amounts of reserves are transferred to share capital.

(e) Income Taxes
Current tax expense is the expected tax payable on the taxable income for the period, using tax rates enacted or substantively enacted at period-end, adjusted for amendments to tax payable with regard to previous periods.

Deferred income taxes are accounted for using the liability method. The liability method requires that income taxes reflect the expected future tax consequences of temporary differences between the carrying amounts of assets and liabilities and their tax bases.

Deferred tax assets and liabilities are determined for each temporary difference based on currently enacted or substantively enacted tax rates that are expected to be in effect when the underlying items of income or expense are expected to be realized.

The effect on deferred tax assets and liabilities of a change in tax rates is recognized in income in the period that substantive enactment occurs.

Recognition of deferred tax assets for unused tax losses, tax credits and deductible temporary differences is restricted to those instances where it is probable that future taxable profit will be available against which the deferred tax asset can be utilized. At the end of each reporting period, the Company reassesses unrecognized deferred tax assets.

The determination of income tax requires the use of judgments and estimates. If certain judgments or estimates prove to be inaccurate, or if certain tax rates or laws change, the Company's results of operations and financial position could be materially impacted.

(f) Loss per Share
Loss per share is calculated using the weighted average number of common shares outstanding during the period. The Company uses the treasury stock method for calculating diluted earnings per share. Diluted loss per share has not been separately presented as the effects of potential issuances of shares under options and warrants would be anti-dilutive; therefore, basic and diluted loss per share are the same.

Shares subject to escrow restrictions are excluded from the weighted average number of common shares when their release is subject to other than the passage of time.

(g) Warrants
Proceeds received on the issuance of units, consisting of common shares and warrants, are allocated first to common shares based on the market trading price of the common shares, and any excess is allocated to warrants.

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

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(h) Financial Instruments (Continued)

Financial assets classified as FVTPL are measured at fair value with unrealized gains and losses recognized through earnings. Financial assets classified as loans and receivables and held-to-maturity are measured at amortized cost. Financial assets classified as available-for-sale are measured at fair value with unrealized gains and losses recognized in other comprehensive income (loss), except for losses in value that are considered other than temporary.

Transactions costs associated with FVTPL financial assets are expensed as incurred, while transaction costs associated with all other financial assets are included in the initial carrying amount of the asset.

Financial liabilities

All financial liabilities are initially recorded at fair value and classified upon inception as FVTPL or other financial liabilities. Financial liabilities classified as other financial liabilities are initially recognized at fair value less directly attributable transaction costs.

Financial liabilities classified as FVTPL include financial liabilities held for trading and financial liabilities classified upon initial recognition as FVTPL. Derivatives, including separated embedded derivatives are also classified as held-for-trading unless they are designated as effective hedging instruments. Fair value changes on financial liabilities classified as FVTPL are recognized in profit or loss.

(i) Recently Announced Accounting Pronouncements

Certain pronouncements were issued by the IASB or IFRS Interpretation Committee that are mandatory for accounting periods beginning after July 31, 2012. Many are not applicable or do not have a significant impact on the Company and so have been excluded from below. The following have not been adopted and are being evaluated to determine their impact on the Company.

(i) IFRS 9 – *Financial Instruments* was issued by the IASB in October 2010 and will replace IAS 39 *Financial Instruments: Recognition and Measurement*. IFRS 9 uses a single approach to determine whether a financial asset is measured at amortized cost or fair value, replacing the multiple rules in IAS 39. The approach in IFRS 9 is based on how an entity manages its financial instruments in the context of its business model and the contractual cash flow characteristics of the financial assets. Most of the requirements in IAS 39 for classification and measurement of financial liabilities were carried forward unchanged to IFRS 9. The new standard also requires a single impairment method to be used, replacing the multiple impairment methods in IAS 39. IFRS 9 is effective for annual periods beginning on or after January 1, 2015.

(ii) IFRS 10 – *Consolidated Financial Statements* was issued by the IASB in May 2011. IFRS 10 is a new standard, which identifies the concept of control as the determining factor in assessing whether an entity should be included in the consolidated financial statements of the parent company. Control is comprised of three elements: power over an investee; exposure to variable returns from an investee; and the ability to use power to affect the reporting entity's returns. IFRS 10 is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted.

(iii) IFRS 11 – *Joint Arrangements* was issued by the IASB in May 2011. IFRS 11 is a new standard, which focuses on classifying joint arrangements by their rights and obligations rather than their legal form.

Entities are classified into two groups: parties having rights to the assets and obligations for the liabilities of an arrangement, and rights to the net assets of an arrangement. Entities in the former case account for assets, liabilities, revenues and expenses in accordance with the arrangement, whereas entities in the latter case account for the arrangement using the equity method. IFRS 11 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Recently Announced Accounting Pronouncements (Continued)

(iv) IFRS 12 – *Disclosure of Interests in Other Entities* was issued by the IASB in May 2011. IFRS 12 is a new standard, which provides disclosure requirements for entities reporting interests in other entities, including joint arrangements, special purpose vehicles and off balance sheet vehicles. IFRS 12 is effective for annual periods beginning on or after January 1, 2013. Earlier application is permitted.

(v) IFRS 13 – *Fair Value Measurement* was issued by the IASB in May 2011. IFRS 13 is a new standard, which provides a precise definition of fair value and a single source of fair value measurement considerations for use across IFRS. The key points of IFRS 13 are as follows:

- Fair value is measured using the price in a principal market for the asset or liability, or in the absence of a principal market, the most advantageous market;
- Financial assets and liabilities with offsetting positions in market risks or counterparty credit risks can be measured on the basis of an entity's net risk exposure;
- Disclosure regarding the fair value hierarchy has been moved from IFRS 7 to IFRS 13, and further guidance has been added to the determination of classes of assets and liabilities;
- A quantitative sensitivity analysis must be provided for financial instruments measured at fair value;
- A narrative must be provided discussing the sensitivity of fair value measurements categorized under Level 3 of the fair value hierarchy to significant unobservable inputs; and
- Information must be provided on an entity's valuation processes for fair value measurements categorized under Level 3 of the fair value hierarchy.

IFRS 13 is effective for annual periods beginning on or after January 1, 2013. Earlier adoption is permitted.

(vi) IAS 19 *Employee Benefits* (2011) – This is an amended version with revised requirements for pensions and other post-retirement benefits, termination benefits and other changes.

(vii) IAS 27 *Separate Financial Statements* (2011) – This amended version now only deals with the requirements for separate financial statements, which have been carried over largely un-amended from IAS 27 *Consolidated and Separate Financial Statements.* Requirements for consolidated financial statements are now contained in IFRS 10. Applicable to annual periods beginning on or after January 1, 2013. If early-adopted, must be adopted together with IFRS 10, IFRS 11, IFRS 12 and IAS 28 (2011).

(viii) IAS 28 *Investments in Associates and Joint Ventures* (2011) – This standard supersedes IAS 28 Investments in Associates and prescribes the accounting for investments in associates and sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures.

The standard defines "significant influence" and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment.

Applicable to annual periods beginning on or after January 1, 2013. If early-adopted, must be adopted together with IFRS 10, IFRS 11, IFRS 12 and IAS 27 (2011).

(Expressed in Canadian Dollars)

3. SIGNIFICANT ACCOUNTING POLICIES (Continued)

(i) Recently Announced Accounting Pronouncements (Continued)

(ix) IAS 1 – *Presentation of Financial Statements* was amended by the IASB in June 2011 in order to align the presentation of items in other comprehensive income with US GAAP standards. Items in other comprehensive income will be required to be presented in two categories: items that might be reclassified into profit or loss and those that will not be reclassified. The flexibility to present a statement of comprehensive income (loss) as one statement or two separate statements of profit and loss and other comprehensive income (loss) remains unchanged. The amendments to IAS 1 are effective for annual periods on or after July 1, 2012.

4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT

The carrying values of cash, accounts payable and due to related parties approximate their fair values due to the short-term maturity of these financial instruments.

The fair value of loan receivable approximates carrying value as the loan bears interest at the appropriate market rate of interest.

The Company provides information about its financial instruments measured at fair value at one of three levels according to the relative reliability of the inputs used to estimate the fair value:

Level 1 – quoted prices (unadjusted) in active markets for identical assets or liabilities;

Level 2 – inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly (i.e., as prices) or indirectly (i.e., derived from prices); and

Level 3 – inputs for the asset or liability that are not based on observable market data (unobservable inputs).

(a) Credit Risk

Credit risk is the risk that a counter party to a financial instrument will fail to discharge its contractual obligations. The Company is exposed to credit risk with respect to its cash and loan receivable.

The risk is minimized as cash has been placed at major Canadian and US financial institutions with strong investment-grade ratings by a primary ratings agency, in accordance with the Company's investment policy. The Company's concentration of credit risk and maximum exposure for cash at July 31, 2012 is $68,663 (July 31, 2011 - $1,719,130; August 1, 2010 - $5,311). The loan receivable is due from an officer of the Company with no repayment term or collateral.

(b) Liquidity Risk

Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company's approach to mitigating liquidity risk is to provide reasonable assurance that it will have sufficient funds to meet liabilities when due. The Company has working capital at July 31, 2012 of $144,200 (July 31, 2011 - $1,834,626; August 1, 2010 - $44,929 deficiency), which includes accounts payable and accrued liabilities of $155,826 (July 31, 2011 - $49,025; August 1, 2010 - $42,801) and due to related parties of $3,866 (July 31, 2011 - $13,037; August 1, 2010 - $12,500) to be repaid within one year.

The following is an analysis of the contractual maturities of the Company's financial liabilities at July 31, 2012:

	Within One Year	Between One and Five Years	More than Five Years
Accounts payable	$ 155,826	$ -	$ -
Due to related parties	$ 3,866	$ -	$ -

(Expressed in Canadian Dollars)

4. FINANCIAL INSTRUMENTS AND FINANCIAL RISK MANAGEMENT (Continued)

(c) Market Risk
Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices. Market risk comprises three types of risk: interest rate risk, foreign currency risk and other price risk.

(i) Interest rate risk
The Company is exposed to interest rate risk on the loan receivable with interest rate set at 10%.

(ii) Foreign currency risk
The Company is exposed to foreign currency risk to the extent expenditures incurred or funds received and balances maintained by the Company are denominated in currencies other than the Canadian dollar (primarily US dollars). The Company does not manage currency risk through hedging or other currency management tools.

The Company's net exposure to foreign currency risk is as follows:

		July 31, 2012		July 31, 2011
Cash	US$	156	US$	710,617
Reclamation bond		20,160		20,160
Total exposure to currency risk	US$	20,316	US$	730,777
Canadian dollar equivalent	$	20,345	$	697,015

Based on the above foreign currency exposure as at July 31, 2012, assuming all other variables remain constant, a 4% weakening or strengthening of the Canadian dollar against the US dollar would result in an approximate $1,000 increase or decrease in the Company's net loss for the year.

(iii) Other price risk
Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate due to changes in market prices, other than those arising from interest rate risk or foreign currency risk. The Company is not exposed to significant other price risk.

There is no change to the Company's approach to risk management during the period.

5. CAPITAL MANAGEMENT

The Company is an exploration stage company and currently does not generate cash flows from operations. The Company's primary source of funds comes from the issuance of share capital. The Company does not use other sources of financing that require fixed payments of interest and principal and is not subject to any externally imposed capital requirements.

The Company defines its capital as shareholders' equity. To effectively manage the Company's capital requirements, the Company has a planning and budgeting process in place to ensure that adequate funds are available to meet its strategic goals. The Company monitors actual expenses to budget to manage its costs and commitments.

5. CAPITAL MANAGEMENT (Continued)

The Company's capital management objective is to maximize investment returns to its equity-linked stakeholders within the context of relevant opportunities and risks associated with the Company's operating segment. Achieving this objective requires management to consider the underlying nature of exploration activities, availability of capital, the cost of various capital alternatives and other factors. Establishing and adjusting capital requirements is a continuous management process. Although the Company has been successful at raising funds in the past through the issuance of share capital, it is uncertain whether it will continue this financing due to uncertain economic conditions. The Company is not subject to any externally imposed capital requirements.

There have been no changes to the Company's approach to capital management during the fiscal year ended July 31, 2012.

6. LOAN RECEIVABLE

On July 12, 2011, the Company loaned $100,000 to the Company's CEO. The terms were for three and one-half months with simple interest of 10% per annum. During the year, the due date of the loan receivable was extended to December 1, 2012. As at July 31, 2012, the balance of $110,511 includes accrued interest of $10,511. Subsequent to the year-end, the loan is further extended to May 1, 2013.

7. MINERAL PROPERTY INTERESTS

Squaw Peak Property, Yavapai County, Arizona

The Company entered into an option agreement (the "Agreement") dated January 11, 2010 to acquire certain unpatented mining claims located in Yavapai County, Arizona (the "Property"). The optionor is a private company in which a director owns 50%.

The option will be considered to have been exercised in full and the Company to have earned a 100% undivided beneficial right, title and interest in the Property, when the Company:

(a) Reimburses all costs of acquisition associated with the Property (paid);

(b) Makes cash payments aggregating US$500,000, payable as follows:
- (i) US$20,000 upon signing of agreement (paid);
- (ii) US$20,000 on or before the first anniversary of the effective date (January 11, 2010) (paid);
- (iii) US$30,000 on or before January 11, 2012 (paid);
- (iv) US$40,000 on or before January 11, 2013;
- (v) US$50,000 on or before January 11, 2014;
- (vi) US$50,000 on or before January 11, 2015;
- (vii) US$60,000 on or before January 11, 2016;
- (viii) US$60,000 on or before January 11, 2017;
- (ix) US$70,000 on or before January 11, 2018; and
- (x) US$100,000 on or before January 11, 2019.

7. MINERAL PROPERTY INTERESTS (Continued)

Squaw Peak Property, Yavapai County, Arizona (Continued)

(c) Issues 1,000,000 common shares of the Company to the optionor as follows:
- (i) 50,000 forthwith after the effective date (issued);
- (ii) 50,000 on or before January 11, 2011 (issued);
- (iii) 75,000 on or before January 11, 2012 (issued);
- (iv) 75,000 on or before January 11, 2013;
- (v) 100,000 on or before January 11, 2014;
- (vi) 100,000 on or before January 11, 2015;
- (vii) 100,000 on or before January 11, 2016;
- (viii) 150,000 on or before January 11, 2017;
- (ix) 150,000 on or before January 11, 2018; and
- (x) 150,000 on or before January 11, 2019.

(d) Incurs US$2,800,000 in exploration expenditures on the property as follows:
- (i) US$100,000 on or before January 11, 2011 (incurred);
- (ii) US$200,000 on or before January 11, 2012 (incurred);
- (iii) US$200,000 on or before January 11, 2013 (incurred);
- (iv) US$200,000 on or before January 11, 2014 (incurred);
- (v) US$300,000 on or before January 11, 2015 (incurred);
- (vi) US$300,000 on or before January 11, 2016;
- (vii) US$300,000 on or before January 11, 2017;
- (viii) US$300,000 on or before January 11, 2018;
- (ix) US$400,000 on or before January 11, 2019; and
- (x) US$500,000 on or before January 11, 2020.

On May 30, 2012, the Company announced its decision to terminate its option to purchase the Property following unfavourable results from a recent drill program on the Property. Notice of termination has been given by the Company to the optionor in accordance with the terms of the Agreement.

At July 31, 2012, the Company wrote-off its investment in the properties in the amount of $1,013,332.

The Company holds a reclamation bond with the Bureau of Land Management for US$20,160 (Cdn$20,188) for remediation work. Subsequent to the year-end, the Company has applied for a refund of the bond.

Patagonia Property, Santa Cruz County, Arizona
The Company entered into an option agreement with MinQuest Inc. ("MinQuest") (the "Agreement") dated January 11, 2010 to acquire certain mining claims located in Santa Cruz County, Arizona. The optionor is a private company in which a director owns 50%.

On November 17, 2011, MinQuest signed an amendment to the option agreement with the Company on the Patagonia property whereby the work commitment schedule is extended by approximately 18 months.

On February 1, 2012, the Company entered into a definitive agreement (the "Purchase Agreement") with MinQuest to acquire all of the claims comprising the Patagonia (Sunnyside) project.

Under the terms of the Purchase Agreement, in consideration for the Patagonia Property, the Company will pay to MinQuest the sum of US$800,000, of which US$100,000 (paid) was forwarded as a non-refundable deposit within three business days of signing the Purchase Agreement, and US$400,000 as a non-refundable deposit within three business days of April 30, 2012 and the remaining $300,000 shall be paid at the closing date on

7. MINERAL PROPERTY INTERESTS (Continued)

(d) (Continued)

Patagonia Property, Santa Cruz County, Arizona (Continued)
May 31, 2012. On April 30, 2012, MinQuest signed an amendment to the Purchase Agreement with the Company to extend the closing date to July 31, 2012. In consideration for the extension of the closing date, the Company will pay US$400,000 (paid) to be applied to the non-refundable deposit and issue 50,000 common share of the Company and pay the remainder of $300,000 by July 31, 2012 (paid subsequent to the year-end).

The Purchase Agreement also provides that MinQuest retain a 1.5% royalty on the net smelter returns ("NSR") from the Property, which can be converted at MinQuest's election into common shares of the Company in certain circumstances. Further, the Purchase Agreement provides that MinQuest will assign its rights and obligations under an agreement among MinQuest, Russell Corn and Brian Corn pertaining to certain claims (the "Corn Claims"), which form part of the Property. MinQuest has also agreed to assist the Company in negotiating the purchase of the Corn Claims, for which the Company will be responsible for $100,000 of the purchase price. If such purchase is successful within 90 days of the closing of the transactions contemplated by the Purchase Agreement, MinQuest shall also receive a 1.5% royalty on the NSR from the Corn Claims.

The option payments assumed by the Company are as follows:

(i) US$10,000 on or before December 5, 2011 (incurred);
(ii) US$20,000 on or before December 5, 2012;
(iii) US$30,000 on or before December 5, 2013;
(iv) US$40,000 on or before December 5, 2014;
(v) US$40,000 on or before December 5, 2015;
(vi) US$40,000 on or before December 5, 2016; and
(vii) US$200,000 on or before December 5, 2017.

(Expressed in Canadian Dollars)

7. MINERAL PROPERTY INTERESTS (Continued)

(d) (Continued)

Patagonia Property, Santa Cruz County, Arizona (Continued)

	Squaw Peak $	Patagonia $	Total $
Balance, August 1, 2010	272,751	143,170	415,921
Acquisition costs			
Additions - shares issued	9,000	15,000	24,000
Additions - cash payments	19,878	54,664	74,542
Total acquisition costs	28,878	69,664	98,542
Exploration expenditures			
Assay and recording	8,374	29,094	37,468
Claim fees	8,264	42,663	50,927
Drilling	93,446	-	93,446
Field office	10,344	10,339	20,683
Geological	24,739	56,010	80,749
Maps and reports	18,322	9,943	28,265
Total exploration expenditures	163,489	148,049	311,538
Balance, July 31, 2011	465,118	360,883	826,001
Acquisition costs			
Additions - shares issued	17,571	30,429	48,000
Additions - cash payments	30,396	574,709	605,105
	47,967	605,138	653,105
Exploration expenditures			
Assay and recording	12,071	15,280	27,351
Claim fees	5,517	45,022	50,539
Drilling	286,380	8,403	294,783
Field office	5,830	4,507	10,337
Geological	162,614	106,919	269,533
Maps and reports	27,835	13,929	41,764
Total exploration expenditures	500,247	194,060	694,307
Write-off	(1,013,332)	-	(1,013,332)
Balance, July 31, 2012	-	1,160,081	1,160,081

Realization of assets
The investment in and expenditures on mineral property interests comprise substantially all of the Company's assets. Realization of the Company's investment in these assets is dependent upon the establishment of legal ownership, the attainment of successful production from the properties or from the proceeds of their disposal.

Resource exploration and development is highly speculative and involves inherent risks. While the rewards if an ore body is discovered can be substantial, few properties that are explored are ultimately developed into producing mines. There can be no assurance that current exploration programs will result in the discovery of economically viable quantities of ore.

7. MINERAL PROPERTY INTERESTS (Continued)

Realization of assets (Continued)

The amounts shown for acquisition costs and deferred exploration expenditures represent costs incurred to date and do not necessarily reflect present or future values. These costs will be depleted over the useful lives of the properties upon commencement of commercial production or written off if the properties are abandoned or the claims allowed to lapse.

Title to mineral property interests
Although the Company has taken steps to verify the title to mineral properties in which it has an interest, in accordance with industry standards for the current stage of exploration of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements or transfers and title may be affected by undetected defects.

Environmental
The Company is subject to the laws and regulations relating to environmental matters in all jurisdictions in which it operates, including provisions relating to property reclamation, discharge of hazardous material and other matters. The Company may also be held liable should environmental problems be discovered that were caused by former owners and operators of its properties and properties in which it has previously had an interest. The Company conducts its mineral exploration activities in compliance with applicable environmental protection legislation.

The Company is not aware of any existing environmental problems related to any of its current or former properties that may result in material liability to the Company.

Environmental legislation is becoming increasingly stringent and costs and expenses of regulatory compliance are increasing. The impact of new and future environmental legislation on the Company's operations may cause additional expenses and restrictions.

If the restrictions adversely affect the scope of exploration and development on the mineral property interests, the potential for production on the property may be diminished or negated.

8. EQUIPMENT

	Opening Balance	Additions	Disposals	Accumulated Depreciation	Closing Balance
Office equipment	$ -	$ 3,755	$ -	$ 473	$ 3,282

9. SHARE CAPITAL

(a) Authorized

Unlimited number of common shares without par value
Unlimited number of preferred shares without par value

(b) Issued

During the fiscal year ended July 31, 2012:

(i) 250,000 options were exercised for gross proceeds of $37,500. The common shares were not issued prior to the 2011 year-end and were recorded in subscriptions received. During the current year, these common shares were issued and the $37,500 has been transferred from subscriptions received to share capital. The fair value of $34,480 was allocated from contributed surplus to share capital.

(ii) 875,000 warrants were exercised for gross proceeds of $131,250.

(iii) The Company received $130,000 for share subscriptions for the private placement announced on May 16, 2012 (note 13).

During the year ended July 31, 2011:

(iv) The Company closed a non-brokered private placement of 3,500,000 units at $0.10 each for gross proceeds of $350,000. Each unit consists of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one common share for $0.15 to January 28, 2012.

(v) The Company closed a non-brokered private placement of 7,721,264 units at $0.25 each for gross proceeds of $1,930,316. Each unit consists of one common share and one share purchase warrant. Each warrant will entitle the holder to purchase one common share for $0.40 to March 16, 2012.

(vi) The Company paid $185,152 cash, issued 21,000 finder's shares with a fair value of $0.10 each and 288,488 agent warrants with a fair value of $0.29 each, for total share issuance costs of $269,904 in connection with the two private placements.

(vii) 150,000 stock options were exercised for gross proceeds of $15,000, and $9,477 was reallocated from contributed surplus to share capital.

(viii) 5,054,162 warrants were exercised for gross proceeds of $620,391, and $25,767 was reallocated from contributed surplus to share capital.

(ix) The Company issued 140,000 bonus common shares with a market value of $12,600 for a short-term loan arrangement, which has been included in share-based payments.

(c) Shares Issued for Mineral Property Interests

During the year ended July 31, 2012, the Company issued 75,000 common shares at $0.23 per share for a fair value of $17,571 to meet the terms of the Squaw Peak option agreement. In addition, the Company issued 100,000 common shares at $0.23 per share for a fair value of $23,429 in accordance with the original Patagonia option agreement, and 50,000 common shares at $0.14 per share for fair value of $7,000 for the extension of the purchase of the Patagonia property.

During the year ended July 31, 2011, the Company issued 200,000 common shares with a total fair value of $24,000 to meet the terms of the Squaw Peak and Patagonia agreements.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (Continued)

(d) Stock Options

The Company has a stock option plan (the "Plan") under which it is authorized to grant options to executive officers, directors, employees and consultants enabling them to acquire up to 10% of the issued and outstanding common stock of the Company. Under the Plan, the exercise price of any stock option granted may not be less than the closing price of the Company's shares on the last business day immediately preceding the date of grant, less discount permitted by the policies of the Exchange. The options can be granted for a maximum of ten years and vesting is determined by the Board of Directors at the time of the grant.

Share-based payments

During the year ended July 31, 2012, the Company granted 1,800,000 (2011 - 2,875,000) shares to officers, directors and consultants resulting in share-based payments in the amount of $267,268 (2011 - $860,400).

A summary of the Company's stock options as at July 31, 2012 and 2011 and changes during the years are as follows:

	July 31, 2012		**July 31, 2011**	
	Number of Options	Weighted Average Exercise Price	Number of Options	Weighted Average Exercise Price
Opening balance	3,000,000	$ 0.32	850,000	$ 0.14
Exercised	(250,000)	$ 0.15	(150,000)	$ 0.10
Expired	(400,000)	$ 0.21	(325,000)	$ 0.22
Cancelled	(1,550,000)	$ 0.48	(250,000)	$ 0.30
Granted	1,800,000	$ 0.23	2,875,000	$ 0.35
Closing balance	2,600,000	$ 0.19	3,000,000	$ 0.32

July 31, 2012					**July 31, 2011**		
Grant Date Fair Value	Expiry Date	Number of Options	Weighted Average Exercise Price	Weighted Average Remaining Contractual Life (Years)	Number of Options	Grant Date Fair Value	Weighted Average Remaining Contractual Life (Years)
$ 0.13	March 1, 2013	200,000	$ 0.32	0.58	-	-	-
-	May 18, 2013	-	$ 0.43	-	400,000	$ 0.28	1.80
$ 0.13	June 11, 2015	400,000	$ 0.16	2.87	400,000	$ 0.13	3.87
$ 0.13	January 7, 2016	450,000	$ 0.15	3.44	650,000	$ 0.13	4.44
$ 0.12	February 9, 2016	150,000	$ 0.15	3.53	400,000	$ 0.12	4.53
-	March 17, 2016	-	$ 0.50	-	1,150,000	$ 0.45	4.63
$ 0.176	November 18, 2016	50,000	$ 0.23	4.30	-	-	-
$ 0.155	March 19, 2017	1,350,000	$ 0.205	4.64	-	-	-
		2,600,000	$ 0.19	3.77	3,000,000	$ 0.32	4.10

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (Continued)

(d) Stock Options (Continued)

Share-based payments
During the year, 400,000 options with an exercise price of $0.43 per share and 1,150,000 options with an exercise price of $0.50 per share were cancelled, and total consideration of $50 was paid to the holders of these options.

For the 250,000 options exercised during the year, the exercise date fair value for the 250,000 options was $0.31 per option.

At July 31, 2012, 2,450,000 (2011 - 2,925,000) options were exercisable.

(e) Share Purchase Warrants
As at July 31, 2012, the Company had the following warrants outstanding:

Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life (Years)	Outstanding at July 31, 2011	Issued	Exercised	Expired	Outstanding at July 31, 2012
$ 0.15	January 28, 2012	-	3,400,000	-	875,000	2,525,000	-
$ 0.40	March 16, 2012	-	8,009,752	-	-	8,009,752	-
			11,409,752	-	875,000	10,534,752	-

As at July 31, 2011, the Company has share purchase warrants outstanding entitling the holders to acquire common shares as follows:

Exercise Price	Expiry Date	Weighted Average Remaining Contractual Life (Years)	Outstanding at July 31, 2010	Issued	Exercised	Expired	Outstanding at July 31, 2011
$ 0.12 / $ 0.15	April 27, 2010/ April 27, 2011	-	2,233,500	-	2,199,500	34,000	-
$ 0.10	April 27, 2011	-	617,162	-	617,162	-	-
$ 0.10	February 11, 2011	-	1,825,000	-	1,437,500	387,500	-
$ 0.10	March 4, 2011	-	700,000	-	700,000	-	-
$ 0.45	May 20, 2011	-	166,000	-	-	166,000	-
$ 0.15	January 28, 2012	0.50	-	3,500,000	100,000	-	3,400,000
$ 0.40	March 16, 2012	0.63	-	8,009,752	-	-	8,009,752
		0.56	5,541,662	11,509,752	5,054,162	587,500	11,409,752

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (Continued)

(f) Share-based Payments
The fair value of stock options used to calculate share-based payments for options granted and agent warrants issued as share issuance costs is estimated using the Black-Scholes option pricing model with the following weighted average assumptions:

	July 31, 2012	July 31, 2011
Risk-free interest rate	1.03% - 1.73%	2.40% - 2.71%
Expected life	1- 5 years	2 - 5 years
Expected stock price volatility	115% - 140%	119% - 140%
Expected dividend yield	0.00%	0.00%
Forfeiture rate	0.00%	0.00%

Expected stock price volatility was derived from an average volatility based on historical movements in the closing prices of the Company's or comparable companies' stocks for a length of time equal to the expected life of the options or warrants.

10. RELATED PARTY TRANSACTIONS

In addition to related party transactions disclosed elsewhere in these consolidated financial statements, during the year ended July 31, 2012:

(a) The Company capitalized mineral property expenditures of $39,543 (2011 - $38,228) for geological services paid or accrued to a director and 225,000 common shares were issued at $0.14 to $0.23 per share for $48,000 (2011 - 200,000 common shares issued at $0.12 per share for $24,000) and $37,151 (2011 - $84,142) for reimbursement of claim fees, acquisition costs and geological fees were paid to a company in which a director owns 50%.

(b) The Company paid $34,471 (2011 - $25,751) for premises rented to a Company with common officers and directors.

(c) Interest income of $10,511 (2011 - $nil) was accrued for the $100,000 loan advanced to the CEO of the Company (note 6).

The amounts due to related parties are unsecured, without interest or specified terms of repayment.

Key Management Compensation
Key management personnel are persons responsible for planning, directing and controlling the activities of the entity, and include all directors and officers. Key management compensation comprises:

	July 31, 2012 $	July 31, 2011 $
Management fees	208,000	160,324
Termination payment	55,000	-
Share-based payments	156,920	403,025
Management compensation	419,920	563,349

(Expressed in Canadian Dollars)

10. RELATED PARTY TRANSACTIONS (Continued)

Accounts payable and accrued liabilities include $20,920 (2011 - $nil) of management fees included in key management compensation.

11. INCOME TAXES

A reconciliation of income tax provision computed at the statutory rate to the reported income tax provision is as follows:

	July 31, 2012 $	July 31, 2011 $
Net loss	(1,928,573)	(1,354,882)
Statutory income tax rate	25.63%	27.33%
Income tax benefit computed at statutory rate	(494,197)	(370,334)
Items non-deductable for income tax purposes	70,192	231,732
Impact of foreign exchange on tax assets and liabilities	4,712	-
Change in timing differences	(106,796)	(34,189)
Effects of change in tax rates reduction	4,757	12,476
Unused tax losses and tax offsets not recognized	521,332	160,315
	-	-

Deferred income tax assets and liabilities are recognized for temporary differences between the carrying amounts of the statement of financial position items and their corresponding tax values as well as for the benefit of losses available to be carried forward to future years for tax purposes that are likely to be realized.

The Company's unrecognized deductible temporary differences and unused tax losses for which no deferred tax asset is recognized consists of the following amounts:

	July 31, 2012 $	July 31, 2011 $
Tax value over book value of mineral property interests	1,052,575	52,707
Tax value over book value of equipment	3,755	1,641
Tax value over book value of share issue costs	128,708	204,824
Tax value over book value of other assets	3,563	3,563
Non-capital losses carried forward	1,831,556	1,070,401
Net deferred income tax asset	3,020,157	1,333,136

(Expressed in Canadian Dollars)

11. INCOME TAXES (Continued)

As at July 31, 2012, the Company has non-capital losses of $1,831,500 that may be applied to reduce future income for Canadian income tax purposes. The losses expire as follows:

	$
2026	5,000
2027	42,800
2028	63,800
2029	140,500
2030	283,600
2031	534,700
2032	761,100
	1,831,500

12. SEGMENTED INFORMATION

The Company has one industry segment, the exploration and development of mineral property interests and operates in two geographic segments, Canada and the USA. As at July 31, 2012, mineral property interests and a reclamation bond totaling $1,180,269 are held in the USA.

13. EVENTS AFTER THE REPORTING PERIOD

(a) The Company completed a non-brokered private placement of 3,467,000 units of the Company at a price of $0.10 per unit for aggregate proceeds of $346,700. Each unit consists of one common share in the capital of the Company and one share purchase warrant. Each warrant will entitle the holder thereof to acquire one additional common share of the Company at $0.20 for a period of one year from the date of closing. To July 31, 2012, $130,000 cash was received (note 9(b)(iii)).

(b) The Company granted 1,250,000 incentive stock options to certain of its directors, officers and consultants exercisable at $0.14 per share for five years.

(c) The Company borrowed $900,000 by way of a debenture from a relative of an officer and director of the Company (the “Debenture”). The Debenture bears interest at 12% per annum, payable quarterly, for a term of three years, convertible in whole or in part by the holder into units of the Company at the conversion price of $0.10 per unit, each unit to be comprised of one common share of the Company and one non-transferable warrant exercisable for a period of two years from the date of conversion at an exercise price of $0.20 per share. The Company may prepay the principal sum under the Debenture in whole or in part, together with all interest accrued and unpaid to the date of payment, at any time without notice, bonus or penalty. The Debenture will be secured by a floating charge security interest in all of the Company’s present and after acquired personal property, and a first fixed charge against the Company’s mineral property interest. The Debenture is transferable and assignable by the lender. The Debenture holder may accelerate repayment of up to $150,000 on 30 days’ notice.

14. FIRST-TIME ADOPTION OF IFRS

The accounting policies in note 3 have been applied in preparing the consolidated financial statements for the fiscal year ended July 31, 2012, the consolidated financial statements for the year ended July 31, 2011 and the opening IFRS consolidated statement of financial position at August 1, 2010 (the "transition date").

In preparing the IFRS consolidated statements of financial position at August 1, 2010 and July 31, 2011, the Company has adjusted amounts previously reported in the consolidated 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 at August 1, 2010 and July 31, 2011, and for the year ended July 31, 2011 is set out below.

IFRS 1 sets forth guidance for the initial adoption of IFRS. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first-time adopters of IFRS. The Company elected the following IFRS 1 exemptions:

(a) Business Combinations
IFRS 1 allows that a first-time adopter may elect not to apply IFRS 3 *Business Combinations*, retrospectively to business combinations prior to the date of transition to IFRS.

(b) Share-based Payment Transactions
IFRS 1 allows that a first-time adopter can elect to not apply IFRS 2 *Share-based Payment* granted after November 7, 2002 that vested before the later of (a) the date of transition to IFRS and (b) January 1, 2005. The Company has elected this exemption and will apply IFRS 2 to only unvested stock options as at the Company's transition date, August 1, 2010.

When a share-based payment award vests in installments over the vesting period (graded vesting), each installment is accounted for as a separate arrangement under IFRS. Under Canadian GAAP, an entity can elect to recognize graded vesting equity instruments as separate instruments, like IFRS. Alternatively, unlike IFRS, an entity can elect to treat the equity instruments as a pool and determine fair value using the average life of the instruments, provided that compensation then is recognized on a straight-line basis, subject to at least the value of the vested portion of the award being recognized at each reporting date. The Company currently accounts for each installment under graded vesting as a separate arrangement in accordance with IFRS.

(c) Assets and Liabilities of Subsidiaries and Associates
In accordance with IFRS 1, if a parent company adopts IFRS subsequent to its subsidiary or associate adopting IFRS, the assets and the liabilities of the subsidiary or associate are to be included in the consolidated financial statements at the same carrying amounts as in the financial statements of the subsidiary or associate. The Company's subsidiary, Regal Resources USA Inc., adopted IFRS with a transition date of August 1, 2010.

(d) Estimates
The estimates previously made by the Company under Canadian GAAP were not revised for the application of IFRS.

These were no differences between the consolidated statements of financial position as previously reported under Canadian GAAP and the consolidated statements of financial position under IFRS as at July 31, 2011 and August 1, 2010.

There were no differences in the amounts reported under Canadian GAAP and IFRS for the consolidated statements of comprehensive loss and changes in equity for the year ended July 31, 2011.

(Expressed in Canadian Dollars)

14. FIRST-TIME ADOPTION OF IFRS (Continued)

(d) Estimates (Continued)

The transition from Canadian GAAP to IFRS had no significant impact on the consolidated cash flows generated by the Company for the year ended July 31, 2011.

(e) Reconciliation of Comprehensive Loss and Equity

(i) Comprehensive loss

	July 31, 2011 $
Comprehensive Loss	
Net loss and comprehensive loss under Canadian GAAP	1,354,882
Adjustments for differing accounting treatments	-
Net loss and comprehensive loss under IFRS	1,354,882

(ii) Shareholders' equity

	July 31, 2011 $	**August 1, 2010 $**
Equity		
Total shareholders' equity under Canadian GAAP	2,679,856	392,283
Adjustments for differing accounting treatments	-	-
Total shareholders' equity under IFRS	2,679,856	392,283