

**COLIBRI RESOURCE CORPORATION**  
**CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**AUGUST 31, 2012**

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**COLIBRI RESOURCE CORPORATION**  
(An Exploration Stage Company)

**Condensed Consolidated Interim Financial Statements**

**August 31, 2012 and 2011**

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(Unaudited – Prepared by Management)

**NOTICE OF NO AUDITOR REVIEW OF 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 consolidated interim financial statements they must be accompanied by a notice indicating that the financial statements have not been reviewed by an auditor.

These accompanying unaudited condensed consolidated interim financial statements of Colibri Resource Corporation have been prepared by and are the responsibility of the Company's management.

The Company's independent auditors have not performed a review of these condensed consolidated interim financial statements in accordance with the standards established by the Canadian Institute of Chartered Accountants for a review of interim financial statements by an entity's auditors.

**COLIBRI RESOURCE CORPORATION**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF FINANCIAL POSITION**

(Unaudited – Prepared by Management)

	Note	August 31, 2012	November 30, 2011 (Note 14)	December 1, 2010 (Note 14)
<b>ASSETS</b>				
<b>Current assets</b>				
Cash	4	\$1,091,027	\$2,518,542	\$ 454,924
Sales tax receivable		58,641	28,071	21,870
Prepaid expenses		9,496	44,459	7,835
		<u>1,159,164</u>	<u>2,591,072</u>	<u>484,629</u>
<b>Equipment</b>	5	6,071	14,134	19,729
<b>Exploration and evaluation assets</b>	6	<u>7,038,920</u>	<u>6,029,783</u>	<u>5,670,460</u>
		<u>\$8,204,155</u>	<u>\$8,634,989</u>	<u>\$6,174,818</u>
<b>LIABILITIES AND SHAREHOLDERS' EQUITY</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities		\$ 28,240	\$ 94,284	\$ 98,960
Accounts payable to related parties	7	<u>26,665</u>	<u>39,969</u>	<u>9,010</u>
		<u>54,905</u>	<u>134,253</u>	<u>107,970</u>
<b>Shareholders' equity</b>				
Share capital	8	7,631,102	7,631,102	5,822,413
Warrants	8	1,076,115	1,076,115	-
Contributed surplus	8	3,008,879	2,789,660	2,554,519
Deficit		<u>(3,566,846)</u>	<u>(2,996,141)</u>	<u>(2,310,084)</u>
		<u>8,149,250</u>	<u>8,500,736</u>	<u>6,066,848</u>
		<u>\$8,204,155</u>	<u>\$8,634,989</u>	<u>\$6,174,818</u>

**Nature of Operations and Going Concern (Note 1)**

Approved on behalf of the Board:

“Lance D. Geselbracht” Director

“William R. Walker” Director

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

**COLIBRI RESOURCE CORPORATION**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS**  
**(Unaudited – Prepared by Management)**

	Three Months Ended August 31,		Nine Months Ended August 31,	
	2012	2011	2012	2011
<b>EXPENSES, ADMINISTRATIVE AND GENERAL</b>				
Accounting and audit fees	\$ 5,971	\$ 8,555	\$ 25,272	\$ 24,966
Advertising and promotion	7,630	20,694	40,239	27,471
Amortization	505	1,397	2,494	4,201
Consulting	7,159	30,325	8,969	53,331
Director fees and benefits	14,551	12,500	44,551	12,500
Foreign exchange	10,710	5,593	13,965	8,937
Investor relations	19,500	19,500	58,500	19,500
Legal	-	7,243	8,252	7,243
Management fees	25,722	23,750	83,922	68,750
Office and miscellaneous	3,715	4,857	23,049	8,761
Rent	2,250	2,250	11,164	12,642
Stock-based compensation	-	208,379	219,219	208,379
Telephone	1,179	911	4,275	1,686
Transfer agent and filing fees	8,371	7,154	18,366	23,651
Travel and related costs	6,457	20,160	28,266	34,316
<b>LOSS BEFORE OTHER ITEM</b>	(113,720)	(373,268)	(590,503)	(516,334)
<b>OTHER ITEMS</b>				
Interest	2,868	17,931	18,867	19,093
Gain on disposal of assets	931	-	931	-
<b>NET LOSS FOR THE PERIOD</b>	(109,921)	(355,337)	(570,705)	(497,241)
<b>OTHER COMPREHENSIVE LOSS</b>				
(Note 2)	-	-	-	-
<b>DEFICIT, beginning of period</b>	(3,456,925)	(2,451,988)	(2,996,141)	(2,310,084)
<b>DEFICIT, end of period</b>	\$(3,566,846)	\$(2,807,325)	\$(3,566,846)	\$(2,807,325)
<b>BASIC AND DILUTED LOSS PER SHARE</b>				
	\$ (0.01)	\$ (0.01)	\$ (0.01)	\$ (0.01)
Weighted average number of shares outstanding	50,236,010	49,811,010	50,236,010	42,208,820

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

**COLIBRI RESOURCE CORPORATION**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CHANGES IN EQUITY**  
**(Unaudited – Prepared by Management)**

	<u>Share Capital</u>		Warrants	Contributed Surplus	Deficit	Total
	Number	Amount				
Balance as at December 1, 2010	34,611,010	\$5,822,413	\$ -	\$2,554,519	\$(2,310,084)	\$6,066,848
Mineral properties	200,000	32,000	-	-	-	32,000
Private placements	15,000,000	1,923,885	1,076,115	-	-	3,000,000
Finder's warrants	-	(62,778)	-	62,778	-	-
Share issuance costs	-	(166,277)	-	-	-	(166,277)
Share-based compensation	-	-	-	208,379	-	208,379
Loss for the period	-	-	-	-	(497,241)	(497,241)
<b>Balance at August 31, 2011</b>	<b>49,811,010</b>	<b>\$7,549,243</b>	<b>\$1,076,115</b>	<b>\$2,825,676</b>	<b>\$(2,807,325)</b>	<b>\$8,643,709</b>
Options exercised	425,000	78,516	-	(36,016)	-	42,500
Share issuance costs	-	3,343	-	-	-	3,343
Loss for the period	-	-	-	-	(188,816)	(188,816)
<b>Balance at November 30, 2011</b>	<b>50,236,010</b>	<b>\$7,631,102</b>	<b>\$1,076,115</b>	<b>\$2,789,660</b>	<b>\$(2,996,141)</b>	<b>\$8,500,736</b>
Share-based compensation	-	-	-	219,219	-	219,219
Loss for the period	-	-	-	-	(570,705)	(570,705)
<b>Balance at August 31, 2012</b>	<b>50,236,010</b>	<b>\$7,631,102</b>	<b>\$1,076,115</b>	<b>\$3,008,879</b>	<b>\$(3,566,846)</b>	<b>\$8,149,250</b>

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

**COLIBRI RESOURCE CORPORATION**  
**CONDENSED CONSOLIDATED INTERIM STATEMENTS OF CASH FLOWS**

(Unaudited – Prepared by Management)

	<u>Three Months Ended</u> <u>August 31,</u>		<u>Nine Months Ended</u> <u>August 31,</u>	
	<u>2012</u>	<u>2011</u>	<u>2012</u>	<u>2011</u>
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>				
Net loss and comprehensive income for the period	\$ (109,921)	\$ (355,337)	\$ (570,705)	\$(497,241)
Add (Deduct): Items not requiring the use of cash				
Amortization	505	1,397	2,494	4,201
Stock-based compensation	-	208,379	219,219	208,379
(Gain) on disposal of assets	(931)	-	(931)	-
Change in non-cash working capital items:				
(Increase) decrease in receivables	(13,558)	32,536	(30,570)	8,620
(Increase) decrease in prepaid expenses	7,737	6,468	34,963	4,000
Increase (decrease) in accounts payable and accrued liabilities	(33,489)	(28,987)	(66,044)	2,811
Increase (decrease) in accounts payable to related parties	<u>(33,637)</u>	<u>(60,472)</u>	<u>(13,304)</u>	<u>7,339</u>
Net cash used in operating activities	<u>(183,294)</u>	<u>(196,016)</u>	<u>(424,878)</u>	<u>(261,891)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>				
Proceeds from issuance of shares	-	-	-	3,000,000
Share Issuance costs	<u>-</u>	<u>-</u>	<u>-</u>	<u>(166,276)</u>
	<u>-</u>	<u>-</u>	<u>-</u>	<u>2,833,724</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>				
Acquisition of mineral properties and deferred exploration costs	(139,420)	(28,632)	(1,009,137)	(255,467)
Proceeds from disposal of assets	<u>6,500</u>	<u>-</u>	<u>6,500</u>	<u>-</u>
	<u>(132,920)</u>	<u>(28,632)</u>	<u>(1,002,637)</u>	<u>(255,467)</u>
<b>INCREASE (DECREASE) IN CASH DURING THE PERIOD</b>	(316,214)	(224,648)	(1,427,515)	2,316,366
<b>CASH, beginning of period</b>	<u>1,407,241</u>	<u>2,995,938</u>	<u>2,518,542</u>	<u>454,924</u>
<b>CASH, end of period</b>	<u>\$ 1,091,027</u>	<u>\$ 2,771,290</u>	<u>\$ 1,091,027</u>	<u>\$ 2,771,290</u>

Supplemental disclosure with respect to cash flows (Note 9)

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

**COLIBRI RESOURCE CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
**For The Three Months Ended August 31, 2012 and 2011**

**(Unaudited – Prepared by Management)**

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**1. NATURE OF OPERATIONS AND GOING CONCERN**

Colibri Resource Corporation (“the Company”) was incorporated on February 20, 2004 in the Province of British Columbia. The Company’s registered office is Suite #400 – 570 Granville Street, Vancouver, British Columbia, Canada. The Company’s corporate office and principal place of business is 51A Commercial Street, Nanaimo, British Columbia, Canada.

The Company is pursuing opportunities in the exploration of mineral and natural resource properties in Mexico and is considered to be in the exploration stage.

The Company is in the process of acquiring and exploring its mineral properties and has not yet determined whether the properties contain ore reserves that are economically recoverable. The recoverability of the amounts shown for mineral properties and related deferred exploration costs are 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 or proceeds from the disposition of the properties.

These condensed consolidated interim financial statements have been prepared on a going concern basis, which assumes that the Company will be able to realize its assets and liabilities in the normal course of business. As at August 31, 2012, the Company has working capital of \$ 1,104,259 (2011 – \$2,670,255) and has a cumulative deficit of \$3,566,846 (2011 – \$2,807,325). Operations for the three months ended August 31, 2012 were funded primarily from equity funds raised from private placements completed on April 7, 2011 and May 27, 2011 respectively. Management believes that the Company has sufficient funds to pay its current liabilities and meet its current commitments for funding its capital project costs as well as administrative expenses for the near term, although this cannot be assured.

If the Company’s exploration programs are successful, additional funds will be required to develop the Company’s properties and to place them into commercial production. The only source of future funds presently available to the Company is through the issuance of share capital, or by the sale of an interest in any of its properties in whole or in part. The ability of the Company to arrange such financing or sale of an interest in the future will depend in part upon the prevailing market conditions as well as the business performance of the Company. There can be no assurance that the Company will be successful in its efforts to arrange additional financing, if needed, on terms satisfactory to the Company. If additional financing is raised through the issuance of shares, control of the Company may change and shareholders may suffer dilution. If adequate financing is not available, the Company may be required to delay, reduce the scope of, or eliminate one or more exploration activities or relinquish rights to certain of its interests.

The amounts shown as mineral property interests represent acquisition costs net of recoveries to date, less amounts written off, and do not necessarily represent present or future values. Recoverability of the amounts shown for mineral property interests is dependent upon the discovery of economically recoverable mineral reserves, securing and maintaining title and beneficial interest in the properties, the ability of the Company to obtain financing necessary to complete the exploration and development of its mineral property interests, and on future profitable production or proceeds from the disposition of the mineral property interests.

**COLIBRI RESOURCE CORPORATION**  
**NOTES TO THE CONDENSED CONSOLIDATED INTERIM FINANCIAL STATEMENTS**  
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**2. BASIS OF PRESENTATION**

**(a) Statement of Compliance**

These condensed consolidated interim financial statements have been prepared in accordance with International Accounting Standard 34, Interim Financial Reporting (“IAS 34”), using accounting policies consistent with International Financial Reporting Standards (“IFRS”). The accounting policies have been selected to be consistent with IFRS as is expected to be effective on November 30, 2012, the Company's first annual IFRS reporting date. Previously, the Company prepared its interim and annual financial statements in accordance with Canadian GAAP. These condensed consolidated interim financial statements should be read in conjunction with the November 30, 2011 consolidated financial statements and the condensed consolidated interim financial statements for the three months ended February 29, 2012 and six months ended May 31, 2012.

The adoption of IFRS resulted in changes to the accounting policies as compared with the most recent annual financial statements prepared under Canadian GAAP. The accounting policies set out below have been applied consistently to all periods presented. They also have been applied in the preparation of an opening IFRS statement of financial position as at December 1, 2010, as required by IFRS 1, First Time Adoption of International Financial Reporting Standards (“IFRS 1”). The impact of the transition from Canadian GAAP to IFRS is explained in note 13.

The accounting policies applied in these condensed consolidated interim financial statements are presented in Note 3 and are based on IFRS issued and outstanding as of October 24, 2012, the date the Board of Directors approved the financial statements. The standards and interpretations within IFRS are subject to change and accordingly, the accounting policies for the annual period that are relevant to these condensed consolidated interim financial statements will be finalized only when the first annual IFRS financial statements are prepared for the year ending November 30, 2012.

**(b) Basis of Measurement**

These condensed consolidated interim financial statements have been prepared on a historical cost basis, with the exception of financial instruments classified at fair value through profit or loss and available-for-sale which are measured at fair value.

**(c) Subsidiaries and Principles of Consolidation**

These condensed consolidated interim financial statements include the accounts of Colibri Resources Corporation and its wholly owned subsidiaries Minera Halcones S.A. de C.V., 0901223 B.C. Ltd. and its subsidiary Minera Azor Dorado S.A. de C.V. Minera Halcones S.A. de C.V. and Minera Azor Dorado S.A. de C.V. were incorporated in Mexico for the purposes of developing mineral properties. 0901223 B.C. Ltd. is a holding company. All intercompany transactions and balances have been eliminated upon consolidation. All amounts are reported and measured in Canadian dollars.



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**2. BASIS OF PRESENTATION** *(Continued)*

**(d) Significant Accounting Judgments and Estimates**

The preparation of these condensed consolidated interim financial statements requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities at the date of the financial statements and reported amounts of expenses during the reporting period. Actual outcomes could differ from these estimates. The condensed consolidated interim financial statements include estimates which, by their nature, are uncertain. The impacts of such estimates are pervasive throughout the condensed consolidated interim financial statements, and may require accounting adjustments based on future occurrences. Revisions to accounting estimates are recognized in the period in which the estimate is revised and may affect both the period of revision and future periods. Significant assumptions about the future and other sources of estimation uncertainty that management has made at the statement of financial position date, that could result in a material adjustment to the carrying amounts of assets and liabilities, in the event that actual results differ from assumptions made, relate to, but are not limited to, the following:

- The carrying value and recoverable amount of exploration and evaluation assets;
- The inputs used in accounting for share-based compensation expense in the statements of operations and comprehensive loss;
- The valuation of shares issued in non-cash transactions;
- The valuation allowance applied against deferred income tax assets; and
- Management's assumption of no material provisions or obligations, based on the facts and circumstances that existed during the period.

**3. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES**

The accounting policies set out below are expected to be adopted for the year ending November 30, 2012 and have been applied consistently to all periods presented in these condensed consolidated interim financial statements and in preparing the opening IFRS balance sheet at December 1, 2010 for the purposes of the transition to IFRS, unless otherwise indicated.

**(a) Cash and cash equivalents**

For purposes of reporting cash flows, the Company considers cash and cash equivalents to include amounts held in banks and cashable highly liquid investments with limited interest and credit risk. The remaining maturities at point of purchase are at three months or less, with no penalties on early retirement.

**(b) Equipment**

Equipment is recorded at costs less accumulated amortization. Amortization is recorded on a declining balance basis over the estimated useful life of the assets. These rates are as follows:

Office furniture	20%
Computer equipment	30%
Automotive	30%

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

**(c) Mineral Properties (exploration and evaluation)**

Upon acquiring the legal right to explore a mineral property, costs related to the acquisition, exploration and evaluation are capitalized as incurred. Costs incurred before the Company has obtained the legal rights to explore an area are expensed as incurred. If economically recoverable ore reserves are developed, capitalized costs of the related exploration and evaluation assets are reclassified as mining assets and amortized using the unit of production method. A mineral property is reviewed for impairment whenever events or changes in circumstances indicate that its carrying amount may not be recoverable. If, after management review, it is determined that capitalized acquisition, exploration and evaluation costs are not recoverable, or management deems there to be an impairment in value, the exploration and evaluation assets are written down to their net realizable value is impaired, that property is written down to its estimated net realizable value. When a property is abandoned, all related costs are written off to operations.

Costs include the cash consideration and the fair value of shares issued on the acquisition of mineral rights. Rights acquired under option or joint venture agreements, whereby payments are made at the sole discretion of the Company, are recorded in the accounts when the payments are made. Proceeds from mineral claim option payments, as well as tax credits received by the Company from third parties, are credited to the capitalized cost of the exploration and evaluation assets. If payments received exceed the capitalized cost, the excess is recognized as income in the year received.

The amounts shown for exploration and evaluation assets do not necessarily represent present or future values. Their recoverability is dependent upon the discovery of economically recoverable reserves, the ability of the Company to obtain the necessary financing to complete the exploration and evaluation, and future profitable production or proceeds from the disposition thereof.

**(d) Impairment of Long-lived Assets**

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

Where an impairment loss subsequently reverses, the carrying amount of the asset (or cash-generating unit) is increased to the revised estimate of its recoverable amount, but to an amount that does not exceed the carrying amount that would have been determined had no impairment loss been recognized for the asset (or cash-generating unit) in prior years. A reversal of an impairment loss is recognized immediately in profit or loss.

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

**(e) Foreign Currency Translation**

The functional currency is the currency of the primary economic environment in which the entity operates, and has been determined for each entity within the Company. The presentation currency and functional currency for all entities within the Company is the Canadian dollar. The functional currency determinations were conducted through an analysis of the consideration factors identified in IAS 21, *The Effects of Changes in Foreign Exchange Rates*.

Transactions in currencies other than the Canadian dollar are recorded at exchange rates prevailing on the dates of the transactions. At the end of each reporting period, the monetary assets and liabilities of the Company that are denominated in foreign currencies are translated at the rate of exchange at the balance sheet date while nonmonetary assets and liabilities are translated at historical rates. Revenues and expenses are translated at the exchange rates approximating those in effect on the date of the transactions. Exchange gains and losses arising on translation are reflected in profit or loss for the period.

**(f) Income Taxes**

Income tax expense consists of current and deferred tax expense. Income tax expense is recognized in the statement of loss, except to the extent that it relates to items recognized in other comprehensive income or directly in equity. In this case, the tax is also recognized in other comprehensive income or directly in equity.

Current income tax assets and liabilities for the current and prior periods are measured at the amount expected to be recovered from or paid to the taxation authorities. The tax rates and tax laws used to compute current income tax assets and liabilities are measured at future anticipated tax rates, which have been enacted or substantively enacted at the reporting date. Current tax assets and current tax liabilities are only offset if a legally enforceable right exists to set off the amounts, and the Company intends to settle on a net basis, or to realize the asset and settle the liability simultaneously.

Deferred taxation is provided on all qualifying temporary differences at the reporting date between the tax basis of assets and liabilities and their carrying amounts for financial reporting purposes. Deferred tax assets are only recognized to the extent that it is probable that the deductible temporary differences will reverse in the foreseeable future and future taxable profit will be available against which the temporary difference can be utilized.

Deferred tax liabilities and assets are not recognized for temporary differences between the carrying amount and tax bases of investments in controlled entities where the parent entity is able to control the timing of the reversal of the temporary differences and it is probable that the differences will not reverse in the foreseeable future. Deferred tax assets and liabilities are offset when there is a legally enforceable right to offset current tax assets and liabilities and when the deferred tax balances relate to the same taxation authority.

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

**(g) Basic and Diluted Loss Per Share**

Basic loss per share is computed by dividing the net loss applicable by the weighted average number of common shares outstanding during the reporting period. Diluted loss per share is computed by dividing the net loss by the sum of the weighted average number of common shares issued and outstanding during the reporting period and all additional common shares for the assumed exercise of options and warrants outstanding for the reporting period, if dilutive. The treasury stock method is used to arrive at the diluted loss per share, which is determined by adjusting the loss attributable to common shareholders and the weighted average number of common shares outstanding for the effects of all warrants and options outstanding that may add to the total number of common shares. Diluted loss per share does not include the effect of stock options and warrants as they are anti-dilutive.

**(h) Share Capital**

The Company records its share capital proceeds from share issuances net of related issue costs and any tax effects. The fair value of common shares issued as consideration for mineral right interests is based on the trading price of those shares on the TSX-V on the date of agreement to issue shares or other fair value equivalent amount as determined by the Board of Directors. Agent's warrants, stock options and other equity instruments issued as purchase consideration in nonmonetary transactions other than as consideration for mineral properties are recorded at fair value determined by management using the Black-Scholes option pricing model. Proceeds from unit placements are allocated between shares and warrants issued according to their relative fair value using the residual method.

**(i) Share-based Payments**

Equity-settled share-based payments for directors, officers and employees are measured at fair value at the date of grant and recorded as compensation expense in the financial statements. The fair value determined at the grant date of the equity-settled share-based payments is expensed over the vesting period based on the Company's estimate of shares that will eventually vest. The number of forfeitures likely to occur is estimated on grant date. Any consideration paid by directors, officers and employees on exercise of equity-settled share-based payments is credited to share capital. Shares are issued from treasury upon the exercise of equity-settled share-based instruments.

Compensation expense on stock options granted to non-employees is measured at the earlier of the completion of performance and the date the options are vested and is recorded as an expense in the same period as if the Company had paid cash for the goods or services received. When the value of goods or services received in exchange for the share-based payment cannot be reliably estimated, the fair value is measured by use of the Black-Scholes valuation model. The expected life used in the model is adjusted, based on management's best estimate for the effects of non-transferability, exercise restrictions and behavioural considerations.

**(j) Financial Instruments**

Financial assets

The Company classifies its financial assets into one of the following categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

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

**(j) Financial Instruments** *(Continued)*

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

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 cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

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. If there is objective evidence that the investment is impaired, determined by reference to external credit ratings and other relevant indicators, the financial asset is measured at the present value of estimated future cash flows. Any changes to the carrying amount of the investment, including impairment losses, are recognized through profit or loss.

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 directly in equity. Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from equity and recognized through other comprehensive income (loss).

All financial assets except for those 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 any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

The Company has classified its cash and sales tax receivable at fair value through profit and loss.

Financial liabilities

The Company classifies its financial liabilities into one of two categories, depending on the purpose for which the asset was acquired. The Company's accounting policy for each category is as follows:

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

Other financial liabilities - This category consists of liabilities carried at amortized cost using the effective interest method.

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

**(j) Financial Instruments** *(Continued)*

The Company's accounts payable and accrued liabilities and assets held for sale are classified as other financial liabilities.

The Company designated cash (Level 1) as held for trading assets, measured at fair value. Accounts payable and accrued liabilities are designated as other financial liabilities and measured at amortized cost. Management did not identify any material embedded derivatives, which require separate recognition and measurement. The Company had neither available-for-sale, nor held-to-maturity instruments during the period ended August 31, 2012.

The Company is required to disclose the inputs used in fair value measurements, including their classification within a hierarchy that prioritizes the inputs to fair value measurement.

The three levels of the fair value hierarchy are:

Level 1 – Unadjusted quoted prices in active markets for identical assets or liabilities;

Level 2 – Inputs other than quoted prices that are observable for the asset or liability either directly or indirectly; and

Level 3 – Inputs that are not based on observable market data.

The Company has determined that no adjustments are currently required for transaction costs related to the acquisition of financial assets and financial liabilities that are classified as other than held-for-trading.

**4. NEW ACCOUNTING STANDARDS NOT YET ADOPTED**

The following standards and interpretations have not been in effect as they will only be applied for the first time in future periods. They may result in consequential changes to the accounting policies and other note disclosures. The Company is currently assessing the impacts of these standards:

IFRS 9 – Financial Instruments

IFRS 9 establishes the requirements for recognizing and measuring financial assets and financial liabilities, and is effective for annual periods beginning January 1, 2013 with earlier application permitted.

IFRS 10 - Consolidated Financial Statements

IFRS 10 supersedes IAS 27: Consolidated and Separate Financial Statements and establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities. This new standard is effective for annual periods beginning January 1, 2013 with earlier application permitted.

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**4. NEW ACCOUNTING STANDARDS NOT YET ADOPTED** *(Continued)*

IFRS 11 - Joint Arrangements

IFRS 11 establishes principles for financial reporting by parties to a joint arrangement and supersedes IAS 31: Interests in Joint Ventures and SIC 13: Jointly Controlled Entities - Non- Monetary Contributions by Venturers. This new standard is effective for annual periods beginning January 1, 2013 with earlier application permitted.

IFRS 12 - Disclosure of Interests in Other Entities

IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unstructured entity. This new standard is effective for annual periods beginning January 1, 2013 with earlier application permitted.

IFRS 13 – Fair Value Measurement

IFRS 13 is a comprehensive standard for fair value measurement and disclosure requirements for use across all IFRS standards. The new standard creates a single source of guidance for fair value measurements, where fair value is required or permitted under IFRS, by not changing how fair value is used but how it is measured. The focus will be on an exit price. This new standard is effective for annual periods beginning January 1, 2013 with earlier application permitted.

IAS 27 – Separate Financial Statements

IFRS 27 contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements. IAS 27 requires an entity preparing separate financial statements to account for those investments at cost or in accordance with IFRS 9. This new standard is effective for periods beginning January 1, 2013 with earlier application permitted.

IAS 28 - Investments in Associates and Joint Ventures

IAS 28 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. This amendment is effective for annual periods beginning January 1, 2013 with earlier application permitted.

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**5. EQUIPMENT**

	Office Equipment	Computer Equipment	Computer Software	Automotive	Total
<b>Cost:</b>					
Balance December 1, 2010 and November 30, 2011	\$ 7,090	\$24,056	\$10,089	\$32,100	\$73,335
Additions/disposals	-	-	-	(32,100)	(32,100)
Balance August 31, 2012	\$ 7,090	\$24,506	\$10,089	\$ -	\$41,685
<b>Accumulated amortization:</b>					
Balance December 1, 2010	\$ 3,889	\$16,886	\$10,089	\$22,742	\$53,606
Amortization	608	2,180	-	2,807	5,595
Balance November 30, 2011	4,497	19,066	10,089	25,549	59,201
Amortization	389	1,123	-	(25,549)	(24,037)
Balance August 31, 2012	\$ 4,886	\$20,189	\$10,089	\$ -	\$35,164
<b>Carrying amounts:</b>					
December 1, 2010	\$ 3,201	\$ 7,170	\$ -	\$ 9,358	\$19,729
November 30, 2011	\$ 2,593	\$ 4,990	\$ -	\$ 6,551	\$14,134
August 31, 2012	\$ 2,204	\$ 3,867	\$ -	\$ -	\$6,071

**6. MINERAL PROPERTIES**

**Title to Mineral Properties**

Title to mineral properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyance history characteristic of many mineral properties. The Company has investigated title to all of its mineral properties and, to the best of its knowledge, title to all of its properties are in good standing.

**Colibri Property**

On June 16, 2004, the Company agreed to an option agreement with Minera Cadenza S de RL de CV (“Cadenza”), a private Mexican company wholly owned by Cadence Resource Corporation, a Canadian private company controlled by a director and a former director of the Company, to purchase a 90% interest in the Colibri property, located in the State of Sonora, Mexico. Upon signing the option agreement, the Company paid \$50,000 and issued 200,000 common shares with a value of \$30,000. The Company agreed to pay \$300,000, issue a total of 1,200,000 common shares and incur a total of \$1,800,000 (incurred) in exploration expenditures by June 16, 2010, to earn its 90% interest. The Company has paid the \$350,000 and issued all of the 1,400,000 common shares with a total value of \$244,500. The Company exercised its option and has acquired 100% interest in the Colibri Property, and Cadence Resource Corporation retains a 3% Net Smelter Returns (“NSR”) royalty.

As part of the Colibri property, on June 16, 2004, the Company agreed to an assignment of contract agreement to have the right to purchase a 100% interest in two mineral claims known as the San Francisco and the Juarez claims for a total of US\$1,000,000 to be paid over a six year period ending January 1, 2011. All option payments made under this agreement will be applied to the purchase price of US\$1,000,000 if the Company elects to purchase these two mineral claims. To date, the Company has paid US\$131,000, but has decided not



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**6. MINERAL PROPERTIES** *(Continued)*

**Colibri Property** *(Continued)*

to pay the remaining option payments, as the costs did not warrant the cost of finalizing the option agreements. All previously capitalized costs relating to these two mineral claims were written off in the Company's August 2009 interim financial statements.

On May 27, 2011, the Company closed an "earn-in" and shareholders agreement with Agnico-Eagle Mines Ltd., whereby Agnico may acquire up to a 75% interest in the Colibri gold project and form a joint venture with the Company by making qualified exploration expenditures and payments to Colibri. To earn its 75% interest, Agnico is required to spend a minimum of US\$3.0 million in exploration expenditures over the next three years, of which US\$1.5 million (US\$1,897,472 incurred to date) is to be spent in the first 18 months, as well as complete a positive feasibility study within five years. In addition, Agnico will be required to make option payments totaling US\$1,452,000 (US\$218,000 paid to date) over a seven year period.

After completion of the feasibility study, and Agnico earning its 75% interest, Agnico and Colibri will form a joint venture to develop the Colibri Project. As required under this agreement, a Mexican company, Minera Azor Dorado S.A. de C.V. (the "Operating Company") was incorporated as a wholly-owned subsidiary of a newly incorporated British Columbia company, 0901223 B.C. Ltd. (the joint venture company) to hold the right, title and interest in the Colibri Project and transfer of the concessions comprising the Colibri Project to the Operating Company. The Company owns 100% of the joint venture company at this time.

Pursuant to the terms of the above Agreement, Colibri also completed a private placement of 3 million units of the Company to Agnico at a price of \$0.20 per unit for proceeds of \$600,000. Each unit issued consists of one common share of the Company and one share purchase warrant, with each warrant being exercisable into one additional common share at an exercise price of \$0.35 per common share until May 26, 2013.

**Ramaje Ardiente Property**

On June 16, 2004, the Company agreed to an option agreement with Minera El Sahuaro S.A. de C.V. ("Sahuaro"), a wholly-owned subsidiary of Cadenza, to purchase a 100% interest in the Ramaje Ardiente property, located in the State of Sonora, Mexico. Upon signing the option agreement the Company paid \$20,000 and issued 200,000 common shares with a value of \$30,000. The Company agreed to pay \$70,000, issue a total of 300,000 common shares, incur a total of \$500,000 (incurred) in exploration expenditures and initiate a scoping/pre-feasibility study by June 16, 2009, to earn its 100% interest. The Company has paid the \$90,000 and issued all of the 300,000 common shares with a value of \$45,000.

The Company exercised its option and has acquired the 100% interest, and so initiated a scoping and pre-feasibility study. Consequently, the Company has issued an additional 200,000 shares with a value of \$32,000 as per the original option agreement.

The property is subject to a 2.0% NSR royalty. The Company has the option to purchase 50% of the royalty for \$1,000,000.

**Leon Property**

On June 16, 2004, the Company agreed to an option agreement with Minera La Pitahaya S.A. de C.V. ("Pitahaya"), a private Mexican company, which is 50% owned by a former director of the Company, to purchase a 100% interest in the Leon property, located in the State of Sonora, Mexico. Upon signing the option agreement, the Company paid \$20,000 and issued 200,000 common shares with a value of \$30,000.

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**6. MINERAL PROPERTIES** *(Continued)*

**Leon Property** *(Continued)*

The Company agreed to pay a total of \$190,000, issue a total of 200,000 common shares, incur a total of \$500,000 (incurred) in exploration expenditures and commence a scoping/pre-feasibility study by December 16, 2008, to earn its 100% interest.

The Company has paid the \$210,000 and issued all of the 400,000 common shares with a value of \$48,000. The Company exercised its option and has acquired the 100% interest.

The property is subject to a 2.0% NSR royalty. The Company has the option to purchase 50% of the royalty for \$1,000,000.

**Evelyn Property**

In March 2010 the Company's subsidiary, Minera Halcones, acquired a 100% interest in the Evelyn III claim via a Mexican government "sorteo" or claim lottery. This 506.3 hectare claim is located in the State of Sonora, Mexico.

<b>For the nine months ended August 31, 2012</b>	Colibri Property	Ramaje Ardiente Property	Leon Property	Evelyn Property	Total
<b>Acquisition costs:</b>					
Balance, December 1, 2011	\$ 508,295	\$ 167,000	\$ 282,820	\$ -	\$ 958,115
Option payments cash	20,000	-	-	-	20,000
Option payments received cash	(119,813)	-	-	-	(119,813)
Balance, August 31, 2012	408,482	167,000	282,820	-	858,302
<b>Deferred Exploration costs:</b>					
Balance, December 1, 2011	\$1,949,268	\$1,121,509	\$1,987,086	\$ 13,805	\$5,071,668
<b>Additions</b>					
Accommodation and meals	-	5,871	-	1,264	7,135
Assays and lab tests	-	155,059	-	-	155,059
Drilling / mobilization / demobilization	-	399,317	-	-	399,317
Field expenses and personnel	-	61,906	-	2,375	64,281
Geological consulting	-	249,375	-	4,499	253,874
Geophysics	-	73,391	-	-	73,391
Maps and reproduction	-	30,905	-	1,070	31,975
Miscellaneous	-	15,541	-	323	15,864
Property and claim taxes	-	29,379	48,004	685	78,068
Telephone	-	282	-	39	321
Travel and transport	5,146	23,533	157	829	29,665
	5,146	1,044,559	48,161	11,084	1,108,950
	1,954,414	2,166,068	2,035,247	24,889	6,180,618
<b>Balance, August 31, 2012</b>	<b>\$2,362,896</b>	<b>\$2,333,068</b>	<b>\$2,318,067</b>	<b>\$ 24,889</b>	<b>\$7,038,920</b>

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**6. MINERAL PROPERTIES** *(Continued)*

<b>For the year ended November 30, 2011</b>	Colibri Property	Ramaje Ardiente Property	Leon Property	Evelyn Property	Total
<b>Acquisition costs:</b>					
Balance, December 1, 2010	\$ 574,275	\$ 135,000	\$ 282,820	\$ -	\$ 992,095
Option payments cash	30,000	-	-	-	30,000
Option payments shares	-	32,000	-	-	32,000
Option payments received cash	(95,980)	-	-	-	(95,980)
Balance, November 30, 2011	508,295	167,000	282,820	-	958,115
<b>Deferred Exploration costs:</b>					
Balance, December 1, 2010	\$1,944,877	\$ 697,148	\$2,023,743	\$ 12,597	\$4,678,365
<b>Additions</b>					
Accommodation and meals	641	7,490	642	-	8,773
Assays and lab tests (recovery)	1,663	104,764	(54,080)	-	52,347
Drilling / mobilization / demobilization	-	98,595	-	-	98,595
Field expenses and personnel	31	29,384	31	-	29,446
Geological consulting	14,589	124,172	15,789	-	154,550
Geophysics	-	-	-	-	-
Maps and reproduction	600	15,197	-	-	15,797
Miscellaneous	23,079	17,302	882	205	41,468
Property and claim taxes	-	24,648	37,797	1,003	63,448
Telephone	35	420	35	-	490
Travel and transport	898	15,704	898	-	17,500
	41,536	437,676	1,994	1,208	482,414
IVA recoveries	(37,145)	(13,315)	(38,651)	-	(89,111)
	1,949,268	1,121,509	1,987,086	13,805	5,071,668
Balance, November 30, 2011	\$2,457,563	\$1,288,509	\$2,269,906	\$ 13,805	\$6,029,783

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**7. RELATED PARTY TRANSACTIONS**

Accounts payable to related parties of \$26,665 (2011 – \$16,349) is comprised of reimbursable travel costs, management fees to officers of the Company, director fees to directors of the Company, and geological consulting fees due to a director of the Company.

The Company entered into the following transactions with related parties for the three month periods ended August 31, 2012 and 2011:

- a) Paid or accrued \$6,500 (2011 – \$26,209) in geological consulting fees, of which \$NIL (2011 – \$23,869) are included in mineral properties, to a company controlled by a former director.
- b) Paid or accrued \$10,706 (2011 – \$8,628) in geological consulting fees and mapping and production, of which \$10,706 (2011 – \$8,628) are included in mineral properties, to directors of the Company or companies controlled by directors of the Company.
- c) Paid or accrued \$25,722 (2011 – \$23,750) in management fees and \$4,800 (2011- \$NIL) to companies controlled by directors and officers of the Company.
- d) Paid or accrued \$2,250 (2011 – \$2,250) in office rent to a company controlled by a director of the Company.
- e) Paid or accrued \$14,551 (2011 - \$12,500) in fees to directors of the Company.

These transactions were in the normal course of operations and were measured at the exchange amount, which is the amount of consideration established and agreed to by the related parties.

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**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS**

a) **Authorized Share Capital:**

100,000,000 common shares without par value

b) **Issued Share Capital:**

At August 31, 2012 there were 50,236,010 issued and fully paid common shares (November 30, 2011 – 50,236,010).

c) **Private Placements**

During the nine months ended August 31, 2012, the Company did not complete any private placements.

During the fiscal year ended November 30, 2011, the Company completed the following private placements:

(i) On April 7, 2011, the Company completed a non-brokered private placement of 12,000,000 Units at a price of \$0.20 per Unit for gross proceeds of \$2,400,000. Each Unit consisted of one common share and one share purchase warrant. Each warrant is exercisable into one common share at an exercise price of \$0.35 per common share until April 6, 2013. If the closing price of the Company's common shares on the TSX Venture Exchange is \$0.60 or greater for a period of 20 consecutive trading days the Company may accelerate the expiry date of the warrants.

Of the \$2,400,000 gross proceeds, \$1,540,686 was allocated to share capital and \$859,314 was allocated to warrants based on their relative fair values. Finders acting in connection with the Private Placement were paid a cash finder's fee of \$112,350 and an aggregate of 561,750 finder's warrants, each finder's warrant entitling the holder to purchase one common share until April 6, 2013. These finder's warrants have a fair value of \$62,778, which was allocated to contributed surplus. All the common shares and warrants were subject to a four-month hold period which expired on August 7, 2011. The value of these warrants was calculated using the Black-Scholes pricing model with the following assumptions: volatility of 133%, risk-free interest rate of 1.77%, expected life of 2.0 years, and a dividend rate of 0%.

(ii) On May 27, 2011, pursuant to the terms of an Earn-in and Shareholders Agreement, the Company completed a private placement of 3,000,000 Units to Agnico-Eagle Mines Ltd. at a price of \$0.20 per Unit for proceeds of \$600,000. Each Unit issued consists of one common share of the Company and one share purchase warrant, with each warrant being exercisable into one additional common share at an exercise price of \$0.35 per common share until May 27, 2013. Of the \$600,000 proceeds, \$383,199 was allocated to share capital and \$216,801 was allocated to warrants. All the common shares and warrants were subject to a four-month hold period which expired on September 28, 2011. The value of these warrants was calculated using the Black-Scholes pricing model with the following assumptions: volatility of 135%, risk-free interest rate of 1.50%, expected life of 2.0 years, and a dividend rate of 0%.

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**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS** *(Continued)*

**d) Stock Options**

On May 30, 2012, the Company amended its Stock Option Plan from a 10% rolling plan to a fixed plan, whereby the Company may grant stock options to eligible persons to acquire a total of 500,000 common shares of the Company. Awarded stock options generally vest immediately and are exercisable over a period not exceeding ten years at exercise prices determined by the directors. The exercise price of each option equals the market price of the Company's stock as calculated on the date of grant.

The number of stock options outstanding at August 31, 2012 is summarized as follows:

	Number Of Options	Weighted Average Exercise
Balance, November 30, 2009	1,390,000	\$ 0.21
Options granted	450,000	0.10
Balance, November 30, 2010	1,840,000	0.18
Options granted	950,000	0.25
Options exercised	(425,000)	0.10
Options expired	(25,000)	0.10
Balance, November 30, 2011	2,340,000	0.23
Options granted	1,950,000	0.14
Balance, August 31, 2012	4,290,000	0.19
Weighted average fair value per options granted		\$ 0.13

On April 17, 2012, an aggregate of 1,950,000 incentive stock options were granted to directors and officers of the Company with an estimated fair value of \$219,219. The options vested immediately, are exercisable at \$0.14 per share for a period of five years, and will expire on April 17, 2017. The fair value of these options was estimated on the date of issue and was expensed in the statement of operations for the three month period ended May 31, 2012.

The Company used the Black-Scholes option pricing model to determine the value of the issued options. The assumptions were as follows: a 5 year expected term, a stock price volatility of 125%, a risk-free interest rate of 1.63% and a forfeiture rate of 5%.

At August 31, 2012, the following stock options were outstanding:

Number of Options	Exercise Price	Expiry Date
940,000	\$0.26	October 29, 2012
450,000	\$0.10	January 31, 2015
950,000	\$0.25	July 17, 2016
1,950,000	\$0.14	April 17, 2017

At August 31, 2012, the 4,290,000 options outstanding have a weighted average life remaining of 3.25 years.

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**8. SHARE CAPITAL AND CONTRIBUTED SURPLUS** *(Continued)*

**e) Warrants**

The Company has 15,561,750 share purchase warrants outstanding as at August 31, 2012, enabling holders to acquire common shares, determined as follows:

Expiry Date	Exercise Price	Number	Remaining Life
April 6, 2013	\$0.35	12,561,750	0.60 years
May 26, 2013	\$0.35	3,000,000	0.73 years
Number outstanding and exercisable		15,561,750	

**9. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS**

	August 31, 2012	August 31, 2011
Cash paid during the period for:		
Income taxes	\$ -	\$ -
Interest	\$ -	\$ -
Non-cash financing and investing activities:		
Shares issued for mineral property interests	\$ -	\$ -

**10. SEGMENTED INFORMATION**

The Company primarily operates in one reportable business segment, being the acquisition and exploration of mineral properties located in Mexico. The net loss and assets identifiable with these geographic areas are as follows:

Three months ended August 31, 2012	Canada	Mexico	Total
Net loss for the period	\$ (104,918)	\$ (5,003)	\$ (109,921)
Current assets	1,112,678	46,486	1,159,164
Equipment	5,854	217	6,071
Mineral properties	-	7,038,920	7,038,920
Total assets	\$1,118,532	\$7,085,623	\$8,204,155
Year ended November 30, 2011	Canada	Mexico	Total
Net loss for the year	\$ (656,020)	\$ (30,037)	\$ (686,057)
Current assets	2,514,642	76,430	2,591,072
Equipment	13,862	272	14,134
Mineral properties	-	6,029,783	6,029,783
Total assets	\$2,528,504	\$6,106,485	\$8,634,989

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**11. FINANCIAL INSTRUMENTS**

The Company, through its financial assets and liabilities is exposed to various risks. The following analysis provides a measurement of risks as at the balance sheet date, August 31, 2012.

a) Fair Value

The carrying values of cash, accounts receivable, accounts payable to related parties, and accounts payable and accrued liabilities approximate their fair values due to the short terms to maturity of the instruments.

b) Interest Rate Risk

Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Company has cash balances primarily in large Canadian chartered banks, and no interest-bearing debt. The Company's current policy is to invest cash in Canadian bank savings accounts with interest that varies at prime and guaranteed investment certificates with terms of one year or less.

c) Credit Risk

The Company's credit risk is primarily attributable to cash and accounts receivable. Cash is held with reputable financial institutions, primarily in Canada, and is kept in highly liquid accounts that are closely monitored by management. Credit risk with respect to its accounts receivable is minimal due to the insignificant balances are primarily due from government agencies.

The Company's maximum exposure to credit risk is as follows:

August 31, 2012	Canada	Mexico	Total
Cash and cash equivalents	\$1,044,541	\$ 46,486	\$1,091,027
Sales tax receivable	58,641	-	58,641
	\$1,103,182	\$ 44,876	\$1,148,058
November 30, 2011	Canada	Mexico	Total
Cash and cash equivalents	\$2,403,360	\$ 115,182	\$2,518,542
Sales tax receivable	28,071	-	28,071
	\$2,431,431	\$ 115,182	\$2,546,613



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**11. FINANCIAL INSTRUMENTS** *(Continued)*

d) Derivatives – Mineral Properties

The Company retains and/or has obligations related to certain carried interest rights and net smelter royalties (“NSR”), the value of which is derived from future events and commodity prices. These rights are derivative instruments. However, the mineral property interests to which they relate are not sufficiently developed to reasonably determine value.

e) Foreign currency risk

Foreign exchange risk is the risk that the fair value or future cash flow of a financial instrument will fluctuate because of changes in foreign exchange rates. The Company’s cash flow exposure to foreign currency is due mainly to cash, option payments and costs incurred for the development of its mineral properties in Mexico. As at August 31, 2012, the Company’s consolidated balance sheets included \$134,327 (2011 – \$32,035) of cash denominated in U.S. currency and \$31,060 (2011 – \$103,809) denominated in Mexican currency; \$4,000 (2011 – \$52,837) of accounts payable which were U.S. currency denominated and \$NIL (2011 – \$1,243) of accounts payable which were Mexico currency denominated. The Company does not use, hold or issue financial instruments for trading or speculative purposes. At August 31, 2012 there were no foreign exchange contracts outstanding.

A 10% increase or decrease in the value of the Mexican peso compared to the Canadian dollar could increase or decrease the Company’s reported mineral properties by \$10,500 and increase or decrease its expenses by \$500.

A 10% increase or decrease in the value of the US dollar compared to the Canadian dollar could increase or decrease the Company’s reported mineral properties by \$13,550 and increase or decrease its expenses by \$1,200.

f) Liquidity risk

Liquidity risk is the risk that the Company will not be able to meet its obligations as they fall due. The Company manages liquidity risk through the management of its capital structure and financial leverage as outlined below. The Company has sufficient funds as at August 31, 2012 to settle its current accounts payable of \$54,905, and its long-term commitments on mineral claims as outlined in Note 6.

In the opinion of management, the working capital of \$1,104,259 at August 31, 2012 is sufficient to support the Company’s normal operating requirements through its current reporting period. However, taking into consideration the Company’s current cash position, volatile equity markets, global uncertainty in the capital markets and increasing cost pressures, the Company is continuing to review expenditures in order to ensure adequate liquidity and flexibility to support its exploration and development strategies.

The Company believes that external financing, likely in the form of equity offerings, will be required to complete its major exploration and development projects; however, it is not likely that there will be a need for financing until the second half of 2013.

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**12. CAPITAL MANAGEMENT**

The Company defines capital that it manages as its shareholders' equity. The Company's objectives when managing capital are to safeguard the Company's ability to continue as a going concern in order to pursue the development of its mineral properties and to maintain a flexible capital structure which optimizes the costs of capital at an acceptable risk.

The Company manages its' capital structure and makes adjustments to it, in order to provide sufficient funding for operational activities. New funds are primarily secured through equity capital obtained in private placements.

In order to facilitate the management of its capital requirements, the Company prepares annual expenditure budgets that are updated as necessary depending on various factors, including successful capital deployment and general industry conditions. These budgets are approved by the Company's Board of Directors.

In order to maximize ongoing development efforts, the Company does not pay out dividends. The Company's investment policy is to invest its cash in interest-bearing accounts with Canadian chartered banks.

The Company expects the capital resources available to it will be sufficient to carry its exploration and development plans and operations for at least the next twelve months. Although the Company has been successful at raising funds in the past through the issuance of share capital, there is uncertainty that it will be able to continue this form of financing in the future.

There were no changes in the Company's approach to capital management during the nine month period ended August 31, 2012. The Company is not subject to externally imposed capital requirements.

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**13. FIRST TIME ADOPTION TO IFRS**

**a) Exemptions and Choices**

As stated in Note 2, these condensed consolidated interim financial statements are for the period covered by the Company's first financial statements prepared in accordance with IFRS. The accounting policies in Note 3 have been applied in preparing these condensed consolidated interim financial statements for the three months ended August 31, 2012 and 2011, the consolidated financial statements for the year ended November 30, 2011 and the opening IFRS statement of financial position on December 1, 2010, the "Transition Date".

In preparing the opening IFRS statement of financial position and the financial statements for the interim period ended August 31, 2012, the Company has reviewed amounts reported previously in financial statements that were prepared in accordance with GAAP. An explanation of how the transition from GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables. 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 payment, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date. The Company has elected not to apply IFRS 2 to awards that vested prior to December 1, 2010.
- To designate its cash and cash equivalents as Fair Value Through Profit or Loss (FVTPL) upon initial recognition in accordance with an investment strategy that management uses to evaluate performance on a fair value basis. This designation had no impact on the results and financial position of the Company, as these financial instruments were classified as held-for-trading under Canadian GAAP and recorded at their fair value.

Also, in accordance with IFRS 1, an entity's estimates under IFRS at the date of transition to IFRS must be consistent with estimates made for the same date under previous GAAP, unless there is objective evidence that those estimates were in error. The Company has applied this mandatory exception to estimates and believes that its IFRS estimates as of December 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

**b) Changes in Accounting Policies**

The Company has changed certain accounting policies to be consistent with IFRS, so as to be consistent with the Company's first annual IFRS financial statements effective November 30, 2012.

The changes to accounting policies as required by IFRS have not resulted in any significant changes to the recognition and measurement of assets, liabilities, equity, revenue and expenses within its financial statements. A summary of these accounting policy changes is summarized below:

**i) Share Based Payments**

In certain circumstances, IFRS 2 requires a different measurement of share-based compensation than Canadian GAAP. In particular, IFRS requires that each tranche that vests separately must be treated as a separate grant, and that an estimate of forfeiture be included in the determination of the expense associated with the share option grants. Due to the nature of the Company's share options, these changes in accounting policy did not have a significant impact on the condensed consolidated interim financial statements.

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**13. FIRST TIME ADOPTION TO IFRS** *(Continued)*

**b) Changes in Accounting Policies** *(Continued)*

ii) Impairment of (Non-financial) Assets

IFRS, under IAS 36, requires a write down of assets if the higher of the fair market value and its value in use of a group of assets is less than its carrying value. Value in use is determined using discounted estimated future cash flows. Canadian GAAP required a write down to estimated fair value only if the undiscounted estimated future cash flows of a group of assets are less than its carrying value. IFRS also requires the reversal of any previous impairment losses, with the exception of goodwill, where circumstances have changed such that the level of impairment in the value of the assets has been reduced. Canadian GAAP prohibited the reversal of impairment losses.

The Company has changed its accounting policies related to impairment of assets to be consistent with the requirements under IFRS. The changes in accounting policies related to impairment did not have an impact on the condensed consolidated interim financial statements.

iii) Functional Currency

IFRS requires that the functional currency of each company within the consolidated group be assessed individually, while under Canadian GAAP the functional currency of an integrated operation was the same as the reporting company. Under IFRS, where the company's functional currency differs from the presentation currency of the consolidated financial statements, all foreign exchange gains and losses arising on translation to the presentation currency are recognized in the statement of operations and comprehensive income as other comprehensive income.

The functional currency of the Company and its three subsidiaries has been assessed as the Canadian dollar, and consequently this change in accounting policy has no impact on the Company's condensed consolidated interim financial statements.

**c) Reconciliation from Canadian GAAP to IFRS**

There are no significant differences between IFRS and Canadian GAAP in connection with the Company's statements of financial position, statements of comprehensive loss, statements of equity and statements of cash flows for the periods ended August 31, 2012 and 2011, or the year ended November 30, 2011.

IFRS 1 requires reconciliation disclosures that explain how the transition from Canadian GAAP to IFRS has affected the Company's previously reported consolidated financial statements prepared in accordance with previous Canadian GAAP for the three months ended August 31, 2012 and 2011, and the year ended November 30, 2011. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, equity, statement of earnings and comprehensive income and cash flows is set out in the following tables.

Warrants have been reclassified as a separate component of equity from share capital on the Company's statement of financial position and the statement of equity, in order to comply with IAS 1.

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**13. FIRST TIME ADOPTION TO IFRS (Continued)**

**Reconciliation of Assets, Liabilities and Equity  
As at December 1, 2010**

	Canadian GAAP	Effect of Transition to IFRS	Notes	IFRS
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash	\$ 454,924	\$ -		\$ 454,924
Sales tax receivable	21,870	-		21,870
Prepaid expenses	7,835	-		7,835
	484,629	-		484,629
Equipment, net	19,729	-		19,729
Mineral Properties	5,670,460	-		5,670,460
	\$6,174,818	\$ -		\$6,174,818
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	\$ 98,960	\$ -		\$ 98,960
Amounts payable to related parties	9,010	-		9,010
	107,970	-		107,970
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	5,822,413	-		5,822,413
Warrants	-	-		-
Contributed surplus	2,554,519	-		2,554,519
Deficit	(2,310,084)	-		(2,310,084)
	6,066,848	-		6,066,848
	\$6,174,818	\$ -		\$6,174,818

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**13. FIRST TIME ADOPTION TO IFRS** *(Continued)*

The reconciliation between GAAP and IFRS statements of financial position as at August 31, 2011 is provided below:

**Reconciliation of Assets, Liabilities and Equity**  
**As at August 31, 2011**

	Canadian GAAP	Effect of Transition to IFRS	Notes	IFRS
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash	\$ 2,771,290	\$ -		\$ 2,771,290
Sales tax receivable	13,250	-		13,250
Prepaid expenses	3,835	-		3,835
	2,788,375	-		2,788,375
Equipment, net	15,528	-		15,528
Mineral Properties	5,957,926	-		5,957,926
	\$8,761,829	\$ -		\$8,761,829
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	\$ 101,771	\$ -		\$ 101,771
Amounts payable to related parties	16,349	-		16,349
	118,120	-		118,120
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	8,625,358	-		8,625,358
Warrants	-	-		-
Contributed surplus	2,825,676	-		2,825,676
Deficit	(2,807,325)	-		(2,807,325)
	8,643,709	-		8,643,709
	\$8,761,829	\$ -		\$8,761,829

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**13. First Time Adoption to IFRS (Continued)**

The reconciliation between GAAP and IFRS statements of financial position as at November 30, 2011 is provided below:

**Reconciliation of Assets, Liabilities and Equity**  
**As at November 30, 2011**

	Canadian GAAP	Effect of Transition to IFRS	Notes	IFRS
<b>ASSETS</b>				
<b>Current Assets</b>				
Cash	\$ 2,518,542	\$ -		\$ 2,518,542
Sales tax receivable	28,071	-		28,071
Prepaid expenses	44,459	-		44,459
	2,591,072	-		2,591,072
<b>Equipment, net</b>	14,134	-		14,134
<b>Mineral properties</b>	6,029,783	-		6,029,783
	\$ 8,634,989	\$ -		\$ 8,634,989
<b>LIABILITIES</b>				
<b>Current liabilities</b>				
Accounts payable and accrued liabilities	\$ 94,284	\$ -		\$ 94,284
Accounts payable to related parties	39,969	-		39,969
	134,253	-		134,253
<b>SHAREHOLDERS' EQUITY</b>				
Share capital	8,707,217	(1,076,115)	13(c)	7,631,102
Warrants	-	1,076,115	13(c)	1,076,115
Contributed surplus	2,789,660	-		2,789,660
Deficit	(2,996,141)	-		(2,996,141)
	8,500,736	-		8,500,736
	\$ 8,634,989	\$ -		\$ 8,634,989

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**13. First Time Adoption to IFRS (Continued)**

The reconciliation between GAAP and IFRS total comprehensive loss for the three months ended August 31, 2011, the nine months ended August 31, 2011 and the year ended November 30, 2011 is provided below:

**Reconciliation of Comprehensive Loss**  
**Three months ended August 31, 2011**

	Canadian GAAP	Effect of Transition to IFRS	Notes	IFRS
<b>Expenses, administrative and general</b>				
Accounting and audit fees	\$ 8,555	\$ -		\$ 8,555
Advertising and promotion	20,694	-		20,694
Amortization	1,397	-		1,397
Consulting	49,825	-		49,825
Director fees and benefits	12,500	-		12,500
Foreign exchange (gain) loss	5,593	-		5,593
Investor relations		-		
Legal	7,243	-		7,243
Management fees	23,750	-		23,750
Office and miscellaneous	4,857	-		4,857
Rent	2,250	-		2,250
Stock-based compensation	208,379	-		208,379
Telephone	911	-		911
Transfer agent and filing fees	7,154	-		7,154
Travel and related costs	20,160	-		20,160
<b>Loss before other item</b>	(373,268)	-		(373,268)
<b>Other item</b>				
Interest	17,931	-		17,931
<b>Net loss and comprehensive loss for the period</b>	\$ (355,337)	\$ -		\$ (355,337)



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**13. FIRST TIME ADOPTION TO IFRS** *(Continued)*

**Reconciliation of Comprehensive Loss  
Nine months ended August 31, 2011**

	Canadian GAAP	Effect of Transition to IFRS	Notes	IFRS
<b>Expenses, administrative and general</b>				
Accounting and audit fees	\$ 24,966	\$ -		\$ 24,966
Advertising and promotion	27,471	-		27,471
Amortization	4,201	-		4,201
Consulting	53,331	-		53,331
Director fees and benefits	12,500	-		12,500
Foreign exchange (gain) loss	8,937	-		8,937
Investor relations	19,500	-		19,500
Legal	7,243	-		7,243
Management fees	68,750	-		68,750
Office and miscellaneous	8,761	-		8,761
Rent	12,642	-		12,642
Stock-based compensation	208,379	-		208,379
Telephone	1,686	-		1,686
Transfer agent and filing fees	23,651	-		23,651
Travel and related costs	34,316	-		34,316
<b>Loss before other item</b>	(516,334)	-		(516,334)
<b>Other item</b>				
Interest	19,093	-		19,093
<b>Net loss and comprehensive loss for the period</b>	\$ (497,241)	\$ -		\$ (497,241)

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**13. FIRST TIME ADOPTION TO IFRS** *(Continued)*

**Reconciliation of Comprehensive Loss  
Year ended November 30, 2011**

	<b>Canadian GAAP</b>	<b>Effect of Transition to IFRS</b>	<b>Notes</b>	<b>IFRS</b>
<b>Expenses, administrative and general</b>				
Accounting and audit fees	\$ 63,970	\$ -		\$ 63,970
Advertising and promotion	58,912	-		58,912
Amortization	5,595	-		5,595
Consulting	-	-		-
Director fees and benefits	113,296	-		113,296
Foreign exchange (gain) loss	26,500	-		26,500
Investor relations	12,804	-		12,804
Legal	8,570	-		8,570
Management fees	112,500	-		112,500
Office and miscellaneous	11,395	-		11,395
Rent	16,700	-		16,700
Stock-based compensation	208,379	-		208,379
Telephone	3,504	-		3,504
Transfer agent and filing fees	22,393	-		22,393
Travel and related costs	51,497	-		51,497
<b>Loss before other item</b>	(716,015)	-		(716,015)
<b>Other item</b>				
Interest	29,958	-		29,958
<b>Loss before income taxes</b>	(686,057)	-		(686,057)
<b>Future income tax expense</b>	-	-		-
<b>Net loss and comprehensive loss for the year</b>	\$ (686,057)	\$ -		\$ (686,057)

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**13. First Time Adoption to IFRS (Continued)**

The reconciliation between GAAP and IFRS statement of Changes in Equity as of December 1, 2010, August 31, 2011 and November 30, 2011 is provided below:

**Reconciliation of Changes in Equity**

	Common shares		Warrants	Contributed surplus	Deficit	Total shareholder's equity (deficiency)
	Number of shares	Amount				
<b>Balance, December 1, 2010 - GAAP</b>	34,611,010	\$5,822,413	\$ -	\$2,554,519	\$(2,310,084)	\$6,066,848
<b>Effect of Transition to IFRS</b>	-	-	-	-	-	-
<b>Balance, December 1, 2010 - IFRS</b>	34,611,010	\$5,822,413	\$ -	\$2,554,519	\$(2,310,084)	\$6,066,848
<b>Balance, August 31, 2011 - GAAP</b>	49,811,010	\$8,625,358	\$ -	\$2,617,297	\$(2,451,987)	\$8,790,668
<b>Effect of Transition to IFRS</b>	-	(1,076,115)	1,076,115	-	-	-
<b>Balance, August 31, 2011 - IFRS</b>	49,811,010	\$7,549,243	\$1,076,115	\$2,617,297	\$(2,451,987)	\$8,790,668
<b>Balance, November 30, 2011 - GAAP</b>	50,236,010	\$7,631,102	\$1,076,115	\$2,789,660	\$(2,996,141)	\$8,500,736
<b>Effect of Transition to IFRS</b>	-	-	-	-	-	-
<b>Balance, November 30, 2011 - IFRS</b>	50,236,010	\$7,631,102	\$1,076,115	\$2,789,660	\$(2,996,141)	\$8,500,736

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**13. FIRST TIME ADOPTION TO IFRS** *(Continued)*

The reconciliation between GAAP and IFRS statements of cash flows for the three months ended August 31, 2011 and the year ended November 30, 2011 is provided below:

**Reconciliation of cash Flows**  
**Three months ended August 31, 2011**

	Canadian GAAP	Effect of Transition to IFRS	Notes	IFRS
<b>Operating activities</b>				
Net loss and comprehensive income for the period	\$ (355,337)	\$ -		\$ (355,337)
Add: Items not requiring the use of cash				
Amortization	1,397	-		1,397
Stock-based compensation	208,379	-		208,379
	(145,561)			(145,561)
Change in non-cash working capital items:				
Decrease (increase) in receivables	32,536	-		32,536
Decrease (increase) in prepaid expenses	6,468	-		6,468
Increase (decrease) in accounts payable and accrued liabilities	(28,987)	-		(28,987)
Increase in accounts payable to related parties	(60,472)	-		(60,472)
Net cash used in operating activities	(196,016)	-		(196,016)
<b>Cash flows from investing activities</b>				
Acquisition of mineral properties and deferred exploration costs	(28,632)	-		(28,632)
<b>Cash flows from financing activities</b>				
Shares issued	-	-		-
Share issuance costs	-	-		-
	-	-		-
<b>Increase in cash during the period</b>	(224,648)	-		(224,648)
<b>Cash, beginning of period</b>	2,995,938	-		2,995,938
<b>Cash, end of period</b>	\$ 2,771,290	\$ -		\$ 2,771,290

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**13. FIRST TIME ADOPTION TO IFRS** *(Continued)*

**Reconciliation of cash Flows**  
**Year ended November 30, 2011**

	Canadian GAAP	Effect of Transition to IFRS	Notes	IFRS
<b>Operating activities</b>				
Net loss and comprehensive loss for the year	\$ (686,057)	\$ -		\$ (686,057)
Add: Items not requiring the use of cash				
Amortization	5,595	-		5,595
Stock-based compensation	208,379	-		208,379
	(472,083)	-		(472,083)
Change in non-cash working capital items:				
Decrease in receivables	(6,201)	-		(6,201)
Decrease (increase) in prepaid expenses	(36,624)	-		(36,624)
Increase (decrease) in accounts payable and accrued liabilities	26,283	-		26,283
Net cash used in operating activities	(488,625)	-		(488,625)
<b>Cash flows from investing activities</b>				
Acquisition of mineral properties and deferred exploration costs	(327,323)	-		(327,323)
<b>Cash flows from financing activities</b>				
Shares issued	3,042,500	-		3,042,500
Share issuance costs	(162,934)	-		(162,934)
	2,879,566	-		2,879,566
<b>Increase (decrease) in cash during the year</b>	<b>2,063,618</b>	<b>-</b>		<b>2,063,618</b>
<b>Cash, beginning of year</b>	<b>454,924</b>	<b>-</b>		<b>454,924</b>
<b>Cash, end of year</b>	<b>\$2,518,542</b>	<b>\$ -</b>		<b>\$2,518,542</b>