LOMIKO METALS INC.

CONSOLIDATED FINANCIAL STATEMENTS

July 31, 2012 and 2011

INDEX TO CONSOLIDATED FINANCIAL STATEMENTS

INDEPENDENT AUDITORS' REPORT

To the Shareholders of Lomiko Metals Inc.

We have audited the accompanying consolidated financial statements of Lomiko Metals Inc., which comprise the consolidated statements of financial position as at July 31, 2012 and July 31, 2011, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended July 31, 2012 and 2011, and a summary of significant accounting policies and other explanatory information.

Management's responsibility for the financial statements

Management is responsible for the preparation and fair presentation of these consolidated financial statements in accordance with International Financial Reporting Standards, and for such internal controls as management determines is necessary to enable the preparation of the 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 audit. We conducted our audit 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 financial statements are free from material misstatement.

An audit involves performing procedures to obtain 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 consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditors consider internal controls 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 the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the Company as at July 31, 2012 and 2011, and its financial performance and its cash flows for the years then ended in accordance with International Financial Reporting Standards.

Emphasis of matter

Without qualifying our opinion, we draw attention to note 1 in the consolidated financial statements which indicates that the Company is still in exploration stage and, as such, no revenue has been yet generated from its operating activities. Accordingly, the Company depends on its ability to raise financing in order to discharge its commitments and liabilities in the normal course of business. These conditions, along with other matters as set forth in note 1, indicate the existence of an uncertainty that may cast doubt about the Company's ability to continue as a going concern.

Galloway Botteselle & Company

CERTIFIED GENERAL ACCOUNTANTS

Vancouver, BC
November 26, 2012

LOMIKO METALS INC.

CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
Expressed in Canadian Dollars
As at July 31, 2012

		2012	2011
ASSETS			
Current			
Cash and cash equivalents (Note 6)	$	**413,796**	476,531
Accounts receivable and advances		**17,579**	21,349
Prepaid expenses		**100,072**	26,809
		531,447	524,689
Interests in mineral properties (Note 7)		**669,581**	511,029
	$	**1,201,028**	1,035,718
LIABILITIES			
Current			
Accounts payable and accrued liabilities	$	**64,096**	48,078
		64,096	48,078
SHAREHOLDERS' DEFICIENCY			
Capital stock (Note 8 a)		**17,352,740**	16,786,673
Warrants (Note 8 b)		**515,536**	295,753
Stock-based payment reserve (Note 8 c)		**322,002**	269,121
Deficit		**(17,053,346)**	(16,363,907)
		1,136,932	987,640
	$	**1,201,028**	1,035,718

Nature of operations (Note 1)
Commitments, contingencies and subsequent events (Note 11 and 14)

Approved on behalf of the Board:

"Paul Gill"	"Jacqueline Michael"
Paul Gill - President and Chief Executive Officer	Jacqueline Michael - Chief Financial Officer

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

LOMIKO METALS INC.

CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
Expressed in Canadian Dollars
For the Years Ended July 31, 2012 and 2011

	2012	2011
Expenses		
Advertising and promotion	$ 247,851	$ 92,234
Consulting fees	49,928	48,267
Investor relations	59,113	19,118
Management fees	120,000	120,000
Office and miscellaneous	27,366	19,691
Professional fees	65,454	84,823
Regulatory and trust company fees	32,129	44,558
Stock-based compensation	76,799	74,847
	678,640	503,538
Operating loss	(678,640)	(503,538)
Write-down of mineral property acquisition and exploration costs (Note 7)	(199,647)	(240,730)
Net loss	(878,287)	(744,268)
Deficit, beginning of year	(16,349,722)	(15,769,107)
Prior period adjustment (Note 13)	(14,185)	-
As restated	(16,363,907)	(15,769,107)
Expired options and warrants	188,848	149,468
Deficit, end of year	$ (17,053,346)	(16,363,907)
Basic and diluted loss per common share (Note 10)	$ (0.015)	(0.016)
Weighted average number of shares outstanding	59,969,528	47,565,568

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

LOMIKO METALS INC.

CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
Expressed in Canadian Dollars
For the year ended July 31, 2012

	Capital stock			Share-based		
	Number	Amount	Warrants	payment reserve	Deficit	Total
Balance at July 31, 2010	41,268,445	$ 16,140,217	142,375	201,367	(15,769,107)	714,852
Warrants expired	-	-	(142,375)	-	142,375	-
Warrants issued	-	(295,753)	295,753	-	-	-
Private placement	14,250,000	1,000,000	-	-	-	1,000,000
Stock options issued	-	-	-	74,847	-	74,847
Stock options cancelled	-	-	-	(7,093)	7,093	-
Share issue costs	-	(57,791)	-	-	-	(57,791)
Net loss for the period	-	-	-	-	(744,268)	(744,268)
Balance, July 31, 2011	55,518,445	16,786,673	295,753	269,121	(16,363,907)	987,640
Private placement	9,033,200	903,320	-	-	-	903,320
Warrants issued	-	(412,877)	412,877	-	-	-
Warrants expired	-	-	(175,569)	-	175,569	-
Stock options issued	-	-	-	76,799	-	76,799
Stock options expired	-	-	-	(13,279)	13,279	76,799
Broker rights exercised	350,000	28,000	-	-	-	28,000
Share issue costs	-	(80,040)	-	-	-	(80,040)
Warrants exercised	387,500	46,500	-	-	-	46,500
Valuation allocation on exercise of warrants	-	17,525	(17,525)	-	-	-
Options exercised	150,000	18,000	-	-	-	18,000
Valuation allocation on exercise of options	-	10,639	-	(10,639)	-	-
Shares issued for property	1,000,000	35,000	-	-	-	35,000
Net loss for the period	-	-	-	-	(878,287)	(878,287)
Balance, July 31, 2012	66,439,145	$ 17,352,740	515,536	322,002	(17,053,346)	2,039,018

LOMIKO METALS INC.

CONSOLIDATED STATEMENTS OF CASH FLOWS
Expressed in Canadian Dollars
For the Years Ended July 31, 2012 and 2011

		2012	2011
Cash flows from operating activities			
Income (loss) for the year	$	**(878,287)**	(744,268)
Items not involving cash:			
Mineral property costs written off		**199,647**	187,323
Stock-based compensation		**76,799**	74,847
		(601,841)	(482,098)
Changes in non-cash working capital items:			
Accounts receivable		**3,770**	(4,967)
Prepaid expenses		**(73,263)**	(2,801)
Accounts payable		**16,018**	8,403
		(655,316)	(481,463)
Cash flows from financing activities			
Shares issued		**915,780**	942,209
		915,780	942,209
Cash flows from investing activities			
Investment in mineral properties		**(323,199)**	(178,411)
		(323,199)	(178,411)
Increase (decrease) in cash		**(62,735)**	282,335
Cash, beginning of year		**476,531**	194,196
Cash, end of year	$	**413,796**	476,531
Supplemental information			
Resource properties acquired by the issuance of shares	$	**35,000**	-

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

1 Nature of business and going concern

Lomiko Metals Inc. (the "Company") is incorporated under the laws of the Province of British Columbia and is engaged in the acquisition, exploration and development of resource properties. The Company's offices are located at Unit 439 - 7184 120th Street, Surrey, BC.

The Company is in the exploration stage and has not yet determined whether its properties contain enough mineral reserves such that their recovery would be economically viable. Its exploration and development operations are subject to government legislation, policies and controls relating to prospecting, development, production, environmental protection, mining taxes and labour standards. In order to carry out exploration and mining activities, the Company is required to hold certain permits. There is no assurance that the Company's existing permits will be renewed or that new permits that have been applied for will be granted.

The recoverability of valuations assigned to resource properties is dependent upon discovery of economically recoverable reserves, the ability to obtain necessary financing to complete development and future profitable production or proceeds from disposition. Management reviews the carrying value of the Company's interest in each property and where necessary, properties are written down to their estimated recoverable amount. Although management has made its best estimate of these factors, it is reasonably possible that certain events could adversely affect management's estimates of recoverable amounts and the amount of provision for impairment in the carrying value of its resource property interests and related assets. Although the Company has taken steps to verity title to properties in which it has an interest in accordance with industry standards for the current stage of development of such properties, these procedures do not guarantee the Company's title. Property title may be subject to unregistered prior agreements, unregistered claims, aboriginal claims and regulatory and environmental claims.

These consolidated financial statements of the Company have been prepared in accordance with International Accounting Reporting Standards ("IFRS") applicable to a going concern which contemplates the realization of assets and discharge of liabilities in the normal course of operations as they become due. The consolidated financial statements do not reflect any adjustments to the amounts and classification of assets and liabilities that might be necessary should the Company be unable to continue in business.

2 Basis of preparation

Statement of compliance and basis of measurement
These consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board. They have been prepared on a historical cost basis as set out in the accounting policies below. Certain items, including derivative financial instruments, are stated at fair value.

Use of estimates and judgments
The preparation of financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the application of policies and reported amount of assets, liabilities, income and expenses. Actual results may differ from these estimates.

Estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimates are revised and in any future periods affected.

Information about critical judgments in applying accounting policies that have the most significant effect on the amount recognized in the consolidated financial statements is included in the notes to the financial statements where applicable.

3 Significant accounting policies

Basis of consolidation
The consolidated financial statements include the accounts of the Company and its wholly-owned subsidiaries, The Conac Group Inc., incorporated in British Columbia, and Conac Software (USA) Inc., incorporated in Washington, USA., and Lomiko Metals LLC, which was incorporated on October 1, 2009 in Colorado, USA. All inter-company accounts and transactions have been eliminated.

Cash and cash equivalents
Cash and cash equivalents includes cash on hand, deposits held at call with financial institutions and other short-term, highly liquid investments that are readily convertible to known amounts of cash and subject to an insignificant risk of change in value.

Mineral property interests
The Company capitalizes all costs related to investments in mineral property interests on a property-by-property basis. Such costs include mineral property acquisition or staking 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, 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 property for an amount exceeding the deferred costs, provision is made for the impairment in value.

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 property interests are abandoned or the claims are allowed to lapse.

Asset retirement obligations
The Company will record a liability for the estimated future costs associated with legal obligations relating to the reclamation and closure of its resource properties. This amount is recorded at its discounted present value with subsequent annual recognition of an accretion expense on the discounted liability. An equivalent amount is recorded as an increase to mineral property interests and amortized over the useful life of the properties. Management is currently not aware of any existing significant asset retirement obligations and the Company currently does not have any legal obligations relating to the reclamation of its interest in resource properties.

Financial instruments
The Company classifies its financial assets into one of the following categories depending on the purpose for which the instruments were acquired:

Financial assets and liabilities at fair value through profit or loss
A financial asset or liability is classified in this category if acquired principally for the purpose of selling or repurchasing in the short term. Cash and cash equivalents, and marketable securities are included in this category. Financial instruments in this category are recognized initially and subsequently at fair value. Transaction costs are expensed in the statement of operations. Gains and losses arising from changes in fair value are presented in the statement of operations in the period in which they arise.

3 Significant accounting policies (cont.)

Available-for-sale
Available-for-sale investments are non-derivatives that are either designated in this category or not classified in any of the other categories. The Company does not have any instruments classified in this category. Available-for-sale investments are recognized initially at fair value plus transactions costs and are subsequently carried at fair value. Gains or losses arising from changes in fair value are recognized in other comprehensive income. When an available-for-sale investment is sold or impaired, the accumulated gains or losses are moved from accumulated other comprehensive income to the statement of operations and are included in other gains and losses.

Loans and receivables
Loans and receivables are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. The Company's loans and receivables comprise amounts receivable due to their short-term nature. Loans and receivables are initially recognized at the amount expected to be received, less when material, a discount to reduce the loans and receivables to fair value. Subsequently, loans and receivables are measured at amortized cost using the effective interest method less a provision for impairment.

Financial liabilities at amortized cost
Financial liabilities at amortized cost include accounts payable and accrued liabilities. Accounts payable and accrued liabilities are initially recognized at the amount required to be paid, less, when material, a discount to reduce the payables to fair value. Subsequently, accounts payable are measured at amortized cost using the effective interest method. Financial liabilities are classified as current liabilities if payment is due within twelve months. Otherwise they are presented as non-current liabilities.

Functional and presentation currencies
The functional and reporting currency of the Company is the Canadian dollar. Transactions in foreign currencies are translated into the currency of measurement at the exchange rates in effect on the transaction date. Monetary balance sheet items expressed in foreign currencies are translated into Canadian dollars at the exchange rates in effect at the balance sheet date. The resulting exchange gains and losses are recognized in operations.

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

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

3 Significant accounting policies (cont.)

Stock based compensation
Equity-based payments to employees and others providing similar services are measured at fair value of the equity instruments at the grant date. The Company records compensation cost based on the fair value method of accounting for share-based payments. The fair value of stock options is determined using the Black-Scholes option pricing model and is recognized over the vesting period as compensation expense and share-based payment reserve. When options are exercised, the proceeds received, together with any related amount in share-based payment reserve, will be credited to capital stock.

Where a grant of options is cancelled or settled during the vesting period, excluding forfeitures when vesting conditions are not satisfied, the Company immediately accounts for the cancellation as an acceleration of vesting and recognizes the amount that otherwise would have been recognized for services received over the remainder of the vesting period. Any payment made to the employee on the cancellation is accounted for as the repurchase of an equity interest except to the extent the payments exceeds the fair value of the equity instruments granted, measured at the repurchase date. Any such excess is recognized as an expense.

Operating loss
Operating loss is comprised of general administrative costs incurred by the Company, which are not specific to evaluation and exploration projects and all impairment charges relating to intangible assets and financial assets during the year. Operating loss is stated before finance income, finance costs and other gains and losses.

Comprehensive income or loss
Comprehensive income or loss is the change in the Company's net assets that results from transactions, events and circumstances from sources other than the Company's shareholders and includes items that are not included in net profit such as unrealised gains or losses on available-for-sale investments, gains or losses on certain derivative instruments and foreign currency gains or losses related to self-sustaining operations. The Company's comprehensive income or loss, components of other comprehensive income, and cumulative translation adjustments are presented in the consolidated statements of comprehensive income or loss and the consolidated statements of changes in equity.

Earnings or loss per share
Basic and fully diluted earnings or loss per share is calculated on the weighted average number of shares outstanding during the year.

The treasury stock method is used to determine the dilutive effect of stock options and warrants. In order to determine diluted earnings or loss per share, the treasury stock method assumes that any proceeds from the exercise of dilutive stock options and warrants would be used to repurchase common shares at the average market price during the period, with the incremental number of shares being included in the denominator of the diluted earnings or loss per share calculation. In the Company's case, diluted loss per share presented is the same as basic loss per share as the effect of outstanding share options and warrants in the loss per share calculation would be anti-dilutive.

3 Significant accounting policies (cont.)

Income taxes

The Company uses the balance sheet method of accounting for income taxes. Under the balance sheet method, deferred tax assets and liabilities are recognized for the future tax consequences attributable to differences between the financial statement carrying amounts of existing assets and liabilities and their respective tax bases. Deferred tax assets and liabilities are measured using substantively enacted tax rates expected to apply to taxable income in the years in which those temporary differences are expected to be recovered or settled. Deferred income tax assets also result from unused tax losses, tax credits and deductible temporary differences to the extent that it is probable that future taxable profits will be available against which they can be utilized. Deferred tax assets are reviewed at each reporting date and are reduced to the extent that it is no longer probable that the related tax benefit will be realized.

4 New standards and interpretations not yet adopted

IFRS 9, Financial Instruments ("IFRS 9")

IFRS 9 addresses classification and measurement of financial assets and replaces the multiple category and measurement models in IAS 39 for debt instruments with a new mixed measurement model having only two categories: amortized cost and fair value through profit or loss. IFRS 9 also replaces the models for measuring equity instruments, and such instruments are either recognized at fair value through profit or loss or at fair value through other comprehensive income. This standard is effective for annual periods beginning on or after January 1, 2013. The Company is in the process of evaluating the impact of the new standard.

IFRS 10, Consolidated Financial Statements ("IFRS 10")

IFRS 10 builds on existing principles and standards and identifies the concept of control as the determining factor in which an entity should be included within the consolidated financial statements of the parent company. In addition, the consolidated procedures are carried forward substantially unmodified from IAS 27 Consolidated and Separate Financial Statements. This standard is effective for annual periods beginning on or after January 1, 2013. The Company is in the process of evaluating the impact of the new standard.

IFRS 11, Joint Ventures ("IFRS 11")

IFRS 11 establishes principles for financial reporting by parties to a joint arrangement. The IFRS supersedes IAS 31 Interest in Joint Ventures and SIC-13 Jointly Controlled Entities - Non-monetary Contributions by Ventures and is effective for annual periods beginning on or after January 1, 2013.

IFRS 12, Disclosure of Interest in Other Entities ("IFRS 12")

IFRS 12 applies to entities that have an interest in a subsidiary, a joint arrangement, an association or an unconsolidated structured entity. This standard is effective for annual periods beginning on or after January 1, 2013. Early adoption is permitted. The Company is currently evaluating the impacts of this standard on its financial statements.

IFRS 13, Fair Value Measurements ("IFRS 13")

IFRS 13 defines fair value, sets out in a single IFRS framework for measuring fair value and requires disclosures about fair value measurements. This IFRS applies when another IFRS requires or permits fair value measurements or disclosures about fair value measurements, except in specified circumstances. IFRS 13 is to be applied for annual periods beginning on or after January 1, 2013. Early adoption is permitted. The Company is currently assessing the impact of the standard on its financial statements.

5 Critical accounting estimates and judgments

The preparation of these consolidated financial statements in accordance with IFRS requires management to make judgments, estimates and assumptions that affect the reported amounts of assets, liabilities and contingent liabilities at the date of the financial statements and reported amounts of revenues and expenses during the reporting period. Estimates and assumptions are continuously evaluated and are based on management's experience and other factors, including expectations of future events that are believed to be reasonable under the circumstances. Actual outcomes may differ from these estimates.

The effect of a change in an accounting estimate is recognized prospectively by including it in total comprehensive loss/income in the period of change, if the change affects that period only, or in the period of the change and future periods, if the change affect both.

Information about significant areas of estimation uncertainty considered by management in preparing the consolidated financial statements is described below:

Title to mineral property interests
The Company has taken steps to verify title to mineral properties in which it has an interest, these procedures do not guarantee the Company's title. Such properties may be subject to aboriginal interests arising from treaty rights. Title may also be affected by undetected prior agreements, transfers and other defects.

Asset retirement obligations
The Company recognizes the liability for an asset retirement obligation. The relevant costs associated with the asset retirement obligations are estimated based on the Company's interpretation of current regulatory requirements. Based on the assessment, the Company did not have any significant asset retirement obligations at the reporting dates.

Contingencies
By their nature, contingencies will only be resolved when one or more future events occur or fail to occur. The assessment of contingencies inherently involves the exercise of significant judgment and estimates of the outcome of future events.

Share-based payments
The fair value of the employee share options is measured using the Black-Scholes option pricing model. The Company has made estimates as to the expected volatility (based on weighted average historical volatility adjusted for changes expected due to publicly available information), expected life of the instruments (based on historical experience and general option holder behaviour), expected dividends and the risk-free interest rate (based on government bonds).

Warrants
The fair value of the warrants is estimated at the issue date using the Black-Scholes option pricing model with estimates of the volatility based on the Company's historical common share trading prices, expected dividend yield and risk-free interest rates.

Expressed in Canadian Dollars

6 Cash and cash equivalents

		July 31 2012	July 31 2011
Cash	$	410,792	473,527
Cash equivalents		3,004	3,004
		413,796	476,531
Restricted cash	$	129,867	227,593

As at July 31, 2012, the Company held a total of $413,796 in cash and cash equivalents, including $129,867 cash restricted for mineral property exploration costs.

7 Interests in mineral properties

The following table shows the exploration and evaluation assets

	Vines Lake	Alkali Lake	Karolina	Rose Lake	Quatre-Milles	Total
Balance, July 31, 2010	$ 135,971	187,323	172,647	24,000	-	519,941
Additions	175,411	-	3,000	-	-	178,411
Dispositions	-	(187,323)	-	-	-	(187,323)
Balance, July 31, 2011	311,382	-	175,647	24,000	-	511,029
Additions	225,062	-	-	-	133,137	358,199
Dispositions	-	-	(175,647)	(24,000)	-	(199,647)
Balance, July 31, 2012	$ 536,444	-	-	-	133,137	669,581

Vines Lake Property - Liard Mining District, BC
Since March 2006, the Company has acquired 100% interest in 17 claims comprising approximately 5,408 hectares ("Ha") in Liard Mining District of British Columbia, subject to a 2% Net Smelter Return ("NSR") in favour of Mr. Amrit P.S. Gill, a director of the Company.

Alkali Lake Nevada Property - US
The company, in conjunction with its subsidiary Lomiko USA LLC, located and staked 552 lode claims in the Alkali Valley of Nevada in October 2009. The property was abandoned in August 2010.

Karolina Property - Chile
Since June 2009, the Company had acquired exclusive rights to develop 100% of 1,900 hectares of Chilean mineral claims located in the Aguas Calientes Salar, II Region, Chile . The mineral titles were not renewed and therefore were automatically forfeited in June 2012.

Rose Lake 70 Mile House, BC - Canada
In June 2010, the Company acquired 100% interest in EVA and PLAYA claims making up 222 Ha and 222 Ha respectively of semi-evaporitic lakes known as Rose Lake and Cunningham Lake near 70 Mile House, B.C. The two claims were forfeited at the beginning of the fiscal year 2012 due to non-renewal.

Expressed in Canadian Dollars

7 Interests in mineral properties (cont.)

Quatre-Milles - Quebec
In December 2011, the Company signed a mineral property acquisition agreement to acquire a 100% interest in 28 claims comprising approximately 1,641 hectares ("Ha") in the Quatre-Milles Graphite Property located in southwestern Quebec, subject to a 2% NSR in favor of the vendors. The Company is entitled to conduct exploration work on the property. However the transfer of the legal title will not complete until the Company fulfills the additional commitments and conditions as addressed in Note 11 and Note 14.

8 Capital stock

(a) Common shares

Authorized:
Unlimited number of common shares without par value

Issued and fully paid:

	2012	2011
Number of common shares		
Balance beginning of year	55,518,445	41,268,445
Issued for cash		
on exercise of options	500,000	-
on exercise of warrants	387,500	-
private placements	9,033,200	14,250,000
Issued for interests in properties	1,000,000	-
Balance, end of year	66,439,145	55,518,445

Private placements

On March 1,2012, the company completed a private placement of a total of 9,033,200 units at a price of $0.10 per unit, for net proceeds of $823,280 (net of share issue costs of $80,040). Each unit entitles the holder to one common share and one share purchase warrant. Each warrants entitles the holder to purchase one additional common share of the company for a period of one year at an exercise price of $0.15.

(b) Share purchase warrants

Summary of warrants outstanding at July 31, 2012

Number of warrants	Grant date fair value	Exercise price	Expiry Date
1,375,000	$ **89,127**	$ 0.12	May 11, 2013
425,000	**13,532**	0.12	June 28, 2013
9,033,200	**412,877**	0.15	March 1, 2013
10,833,200	$ **515,536**		

Expressed in Canadian Dollars

8 Capital stock (cont.)

Share purchase warrant transactions for the respective periods were as follows:

	Number of Warrants	Weighted Average Exercise price	Grant Date Fair Value
Balance at July 31, 2010	5,416,667	$ 0.20	142,375
Issued	7,125,000	0.11	295,753
Exercised	(5,416,667)	0.20	(142,375)
Expired	-	-	-
Balance at July 31, 2011	7,125,000	0.11	295,753
Issued	9,033,200	0.15	412,877
Exercised	(387,500)	0.12	(17,525)
Expired	(4,937,500)	0.11	(175,569)
Balance at July 31, 2012	10,833,200	0.15	515,536

(c) Stock options

The Company has established a stock option plan for directors, senior officers, employees, management company employees and consultants (collectively "Eligible Persons") for the Company and its subsidiaries. The purpose of the plan is to give to Eligible Persons, as additional compensation, the opportunity to participate in the success of the Company by granting to such individuals Options to buy shares of the Company at a price not less than the market price prevailing on the grant date less applicable discount, if any, permitted by TSX Policies and approved by the Board.

The option price under each option shall not be less than the discounted market price on the grant date. The expiry date for each option shall be set by the board at the time of issuance and shall not be more than ten years after grant date. Options shall not be assignable (or transferable) by the optionee. The maximum number of shares reserved for issuance under the stock option plan in aggregate shall not exceed 10% of the total number of the Company's issued and outstanding common shares on a non-diluted basis prior to the issuance. The number of shares which may be issuable under the plan within a twelve month period to one optionee shall not exceed 5% of the total number of issued and outstanding shares on a non-diluted basis. Options may be exercised no later than 90 days following cessation of the optionee’s position with the Company or 30 days following cessation of an optionee conducting investor relations activities’ position. Pursuant to the stock option plan, options granted in respect of investor relations activities are subject to vesting in stages over a twelve month period with 20% vesting on the date of grant and 20% each three months thereafter. Vesting restrictions may also be applied to other options grants, at the discretion of the Board of Directors.

Expressed in Canadian Dollars

8 Capital stock (cont.)

The following table summarizes the stock options outstanding and exercisable as at July 31, 2012

Number of options outstanding	Exercise price	Expiry Date
200,000	$ 0.10	July 2, 2013
1,300,000	0.12	September 3, 2014
250,000	0.12	February 17, 2015
700,000	0.10	November 30, 2014
950,000	0.10	February 8, 2016
350,000	0.10	August 8, 2016
775,000	0.10	February 13, 2014
100,000	0.10	June 1, 2017
4,625,000	0.11	

The weighted average remaining contractual life of options outstanding at July 31, 2012 is 2.51 years. The weighted average exercise price for options that are exercisable at July 31, 2012 amounted to 0.11 per option.

Stock option transactions for the period ended July 31, 2012 were as follows:

	Number of options	Weighted average exercise price
Balance at July 31, 2010	$ 3,340,000	0.12
Issued	1,350,000	0.10
Cancelled	(100,000)	0.12
Balance at July 31, 2011	4,590,000	0.11
Issued	1,225,000	0.10
Expired	(1,040,000)	0.12
Exercised	(150,000)	0.12
Balance at July 31, 2012	$ 4,625,000	0.11

During the year ended July 31, 2012, stock-based compensation expense of $76,799 (2011 - $74,847) was recorded. The weighted average fair value of the stock-based compensation expense has been determined using the Black-Scholes option pricing model with the following assumptions:

Number Granted	Grant Date	Expiry Date	Exercise Price	Risk-free Interest rate	Expected Life in years	Expected Volatility	Fair value per option
350,000	8/8/2011	8/8/2016	$ 0.10	1.54%	1.69	199.41%	$ 0.05
775,000	2/13/2012	2/13/2014	$ 0.10	1.11%	1.69	144.77%	$ 0.07
100,000	6/1/2012	6/1/2017	$ 0.10	1.13%	1.69	196.32%	$ 0.07

9 Related party transactions

During the year, in the normal course of operations, the company paid $120,000 (2011 - $120,000) in management fees paid to companies controlled by directors and $2,800 (2011 - $8,000) in consulting fees to a company controlled by a director who resigned in November 2011.

10 Basic and diluted loss per share

The calculation of basic loss per share for the year ended July 31, 2012 was based on the loss attributable to common shareholders of $(878,287) (2011 - $(744,268)) and the weighted average number of common shares outstanding 59,969,528 (2011 - 47,565,568).

Excluded from the calculation of the diluted loss per share for the year ended July 31, 2012 are 4,625,000 stock options and 10,833,200 share purchase warrants (2011 - 4,590,000 stock options and 7,125,000 share purchase warrants)

11 Commitments and contingencies

On December 28, 2011, the Company signed a property acquisition agreement with Zimtu Capital Corp. and one of their prospecting partners (the "Vendors") to acquire 100% interest in the Quatre-Milles Property in Quebec. In addition to the cash paid and share capital issued as at July 31, 2012 as outlined in the agreement, the Company is also required to:

- Pay $25,000 in cash and issue 500,000 common shares pro rata to the Vendors six months from TSX-V acceptance of the Agreement (September 26, 2012). (Note 14)
- Issue 1,000,000 common shares pro rata to the Vendors twelve months from TSX-V acceptance of the Agreement (March 26, 2013).
- Issue 1,500,000 common shares pro rata to the Vendors twenty-four months from TSX-V acceptance of the Agreement (March 26, 2014).
- Retain Consul-Teck Mineral Exploration Consultants, of Val d'Or, Quebec as consultants with respect to exploration on the property during the period which is twelve months from TSX-V acceptance (March 26, 2013).
- Complete a minimum of $200,000 of exploration on the Property during the period which is twelve months from the TSX-V acceptance (March 26, 2013). As at July 31, 2012, $73,137 of exploration expenditures had been incurred, leaving a balance of $126,863 to be incurred on or before March 26, 2013.

In the event the Company does not fulfil any of above conditions, at the option of the Vendors the Company will forfeit its right to acquire the Property.

On May 25, 2012, the Company signed a letter agreement with three vendors to acquire a 100% interest in the 2,180 hectares Quatre-Milles West Property in Quebec. The acquisition is currently pending on a final approval from the TSX-V.

The Company's mining and exploration activities are subject to various federal and provincial laws and regulations governing the protection of the environment. These laws and regulations are continually changing and generally becoming more restrictive. The Company believes its operations are materially in compliance with all applicable laws and regulations.

Expressed in Canadian Dollars

12 Income taxes

a) The reconciliation of the income tax recovery, calculated using the combined Canadian federal and British Columbia provincial statutory income tax rate of 25.63% (2011 - 27.34%)

	2012	2011
Loss before income taxes	$ (878,287)	(744,268)
Expected income tax recovery	(225,105)	(203,483)
Adjustments to benefits resulting from:		
Share-based compensation	19,684	20,463
Exploration costs	51,170	51,214
Change in tax rate	4,117	4,958
Other	(13,235)	(9,663)
Tax benefits not recognized	163,369	136,511
Deferred income recovery	$ -	-

b) The Company has incurred losses for Canadian income tax purposes that may be carried forward to reduce income of future years that would otherwise be subject to income tax. The aggregate amount of the losses is $3,384,593.

The losses expire as follows:

2014	$ 802,097
2015	12,827
2027	110,806
2028	130,858
2029	462,824
2030	679,076
2031	532,623
2032	653,482
	$ 3,384,593

The potential tax benefits of the losses have not been recognized in the financial statements as it is considered to be more likely than not that future tax assets will not be realized.

c) The Company has Canadian development and exploration expenditure pools for tax purposes of approximately $1,055,820 at July 31, 2012 that may, in certain situations be applied to reduce taxable income in subsequent years.

d) The unamortized balance of share issue costs amounts to approximately $156,825 as of July 31, 2012.

Expressed in Canadian Dollars

12 Income taxes (cont.)

e) The significant components of the Company's deferred income tax assets which have not been recognized are as follows:

	2012	2011
Non-capital losses	$ 846,148	699,984
Share issue costs	39,206	51,065
Exploration properties	263,955	194,917
Tax assets not recognized	$ 1,149,309	945,966

13 Prior period adjustment

The Company discovered that, in its 2011 fiscal year, 200,000 stock options belonging to a consultant were cancelled in error. The comparative figures for 2011 have been restated to reverse the cancellation and add back the value of the options to the share-based payment reserve. The net comprehensive loss for the year ended July 31, 2011 was reduced by $14,185.

14 Subsequent events

In September 2012, the Company paid $25,000 in cash and issued 500,000 common shares to the vendors of the Quatre-Milles Property at a deemed price of $0.035 per share as set out in the mineral interest acquisition agreement.

15 Financial instruments

As at July 31, 2012, the Company's financial instruments consist of cash and cash equivalents, accounts receivable, and accounts payable and accrued liabilities. The carrying value of these financial instruments approximate their fair values.

Fair Value
The Company classifies its fair value measurements in accordance with an established hierarchy that priorities the inputs in valuation techniques used to measure fair value as follows:

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 assets or liabilities either directly or indirectly, and
Level 3 - Inputs that are not based on observable market date

The following table sets for the Company's financial assets measured at fair value by level within the fair value hierarchy:

	Level 1	Level 2	Level 3	Total
Cash and cash equivalents	$413,796	$ -	$ -	$413,796

15 Financial instruments (cont.)

Credit Risk
Financial instruments that potentially subject the Company to credit risk consist of cash and cash equivalents and amounts receivable. Cash deposits and term deposits are maintained with a financial institution of reputable credit and are redeemable on demand. Amounts receivable consists primarily of input tax credits owed to the Company by the Government of Canada. Accordingly, the Company's opinion is that credit risk is minimal.

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 managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. At July 31, 2012, the Company had cash and cash equivalents of $413,796 to settle accounts payable and accrued liabilities of $64,096 and the $126,863 remaining to be spent on exploration work at Quatre-Milles Property (Note 11).

Market Risk
Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, commodity prices and/or stock market movements (price risk).

Interest rate risk
Interest rate risk is the risk that the fair value of future cash flows of a financial instrument will fluctuate due to changes in market interest rates. Cash and cash equivalents bear interest at market rates. Other current financial assets and liabilities are not exposed to interest rate risk because of their short-term nature or being non-interest bearing.

Foreign currency risk
The Company's functional currency is the Canadian dollar and major purchases are transacted in Canadian dollars. The Company conducted property examinations in other countries outside of Canada in prior years, and is now focused on explorations in Canada. Management believes that the foreign exchange risk derived from currency conversions for property examinations incurred in other countries outside of Canada is not significant and therefore does not hedge its foreign exchange risk.

Price risk
The Company is exposed to price risk with respect to commodity prices. Commodity price risk is the potential adverse impact on earnings and economic value due to commodity price movements and volatilities. The Company closely monitors commodity prices as it relates to minerals to determine the appropriate course of action to be taken by the Company.

16 Capital risk management

The Company's primary objective for managing its capital structure is to maintain financial capacity for the purpose of sustaining the future development of the business and maintaining investor, creditor and market confidence. The Board of Directors does not establish quantitative return on capital criteria for management, but rather relies on the expertise of the Company's management to sustain future development of the business. The Company considers its capital structure to consist of shareholders' equity.

The properties in which the Company currently has an interest are in the exploration stage; as such the Company has historically relied on the equity markets to fund its activities. The Company will continue to assess new properties and seek to acquire an interest in additional properties if it feels there is sufficient geologic or economic potential and if it has adequate financial resources to do so. Management reviews its capital management approach on an ongoing basis and believes that this approach, given the relative size of the Company, is reasonable.

The Company's share capital is not subject to any external restrictions. The Company has not paid or declared any dividends since the date of incorporation, nor are any currently contemplated. There have been no changes to the Company's approach to capital management during the year.

17 Comparative figures

Certain 2011 comparative figures have been reclassified to conform with the current year's presentation.