CARMAX MINING CORP.

CONDENSED INTERIM FINANCIAL STATEMENTS

FOR THE THREE MONTHS ENDED
OCTOBER 31, 2012

(Unaudited)

(Expressed in Canadian Dollars)

NOTICE OF NO AUDITOR REVIEW OF THE
CONDENSED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 Part 4, subsection 4.3(3)(a), if an auditor has not performed a review of these condensed interim financial statements, they must be accompanied by a notice indicating that the condensed interim financial statements have not been reviewed by an auditor.

The accompanying unaudited condensed interim financial statements of Carmax Mining Corp. (the "Company") for the three months ended October 31, 2012 have been prepared by and are the responsibility of the Company's management, and have not been reviewed by the Company's auditors

CARMAX MINING CORP.

CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(Unaudited)
(Expressed in Canadian Dollars)

		OCTOBER 31, 2012		JULY 31 2012
ASSETS				
Current Assets				
Cash	$	53,111	$	20,365
Short term investments		652,730		751,165
Other receivables		10,812		15,972
B.C. Mining Exploration Tax Credit receivable		445,754		445,754
Exploration advances		3,333		8,334
Prepaid expenses		15,501		22,000
Total Current Assets		1,181,241		1,263,590
Equipment (Note 5)		5,875		6,513
Investment (Note 6)		11,000		4,000
Reclamation Deposits (Note 7)		110,000		110,000
Exploration and Evaluation Assets (Note 8)		7,487,191		7,474,947
Total Assets	$	8,795,307	$	8,859,050
SHAREHOLDERS' EQUITY AND LIABILITIES				
Current Liabilities				
Accounts payable and accrued liabilities	$	44,517	$	47,728
Total Liabilities		44,517		47,728
Shareholders' Equity				
Share capital (Note 9)		12,366,842		12,366,842
Share-based payment reserve		531,943		531,943
Accumulated other comprehensive loss		(13,500)		(20,500)
Deficit		(4,134,495)		(4,066,963)
Total Equity		8,750,790		8,811,322
Total Shareholders' Equity and Liabilities	$	8,795,307	$	8,859,050

These financial statements were approved and authorized for issue by behalf of the Board of Directors on December 20, 2012 by:

"Jevin Werbes"
Chief Executive Officer

"Matthew G Wright"
Chief Financial Officer

CARMAX MINING CORP

CONDENSED INTERIM STATEMENTS OF OPERATIONS AND COMPREHENSIVE LOSS
(Unaudited)
(Expressed in Canadian Dollars)

	THREE MONTHS ENDED OCTOBER 31	
	2012	2011
Expenses		
Consulting	**$ 14,750**	$ 12,000
Investor relations	**7,500**	13,500
Management fees	**15,000**	15,000
Office and sundry	**9,887**	12,580
Professional fees	**9,217**	8,775
Promotion and entertainment	**559**	2,949
Rent	**6,900**	6,300
Share-based compensation	**-**	25,300
Shareholder communications	**284**	1,284
Transfer agent and regulatory fees	**1,493**	820
Travel	**4,109**	-
Loss Before Other Item	**(69,699)**	(98,508)
Other Item		
Interest income	**2,167**	4,381
Net Loss For The Period	**(67,532)**	(94,127)
Other Comprehensive Loss		
Unrealized loss arising on available for sale investment	**7,000**	(4,000)
Comprehensive Loss For The Period	**(60,532)**	(98,127)
Basic and Diluted Loss per Share	**$ (0.00)**	$ (0.00)
Weighted Average Number Of Shares Outstanding	**27,515,998**	27,515,998

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

CARMAX MINING CORP.

CONDENSED INTERIM STATEMENT OF CHANGES IN EQUITY
FOR THE PERIOD FROM AUGUST 1, 2011 TO OCTOBER 31, 2012
(Unaudited)
(Expressed in Canadian Dollars)

	SHARE CAPITAL		SHARE BASED PAYMENT RESERVE	ACCUMULATED OTHER COMPREHENSIVE LOSS	DEFICIT	TOTAL SHAREHOLDERS' EQUITY
	SHARES	AMOUNT				
Balance July 31, 2011	27,515,998	$ 12,366,842	$ 579,227	$ (8,500)	$ (3,393,568)	$ 9,544,001
Revaluation of investment to market value	-	-	-	(4,000)	-	(4,000)
Share-based payments	-	-	25,300	-	-	25,300
Expiration of share-based compensation (Note 14)	-	-	(68,264)	-	68,264	-
Net loss for the period	-	-	-	-	(94,127)	(94,127)
Balance, October 31, 2011	27,515,998	12,366,842	536,263	(12,500)	(3,419,431)	9,471,174
Revaluation of investment to market value	-	-	-	(8,000)	-	(8,000)
Share-based payments	-	-	(2,300)	-	-	(2,300)
Expiration of share-based compensation	-	-	(2,020)	-	2,020	-
Net loss for the period	-	-	-	-	(649,552)	(649,552)
Balance, July 31, 2012	27,515,998	12,366,842	531,943	(20,500)	(4,066,963)	8,811,322
Revaluation of investment to market value	-	-	-	7,000	-	7,000
Net loss for the period	-	-	-	-	(67,532)	(67,532)
Balance, October 31, 2012	**27,515,998**	**$ 12,366,842**	**$ 531,943**	**$ (13,500)**	**$ (4,134,495)**	**$ 8,750,790**

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

CARMAX MINING CORP.

CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(Unaudited)
(Expressed in Canadian Dollars)

	THREE MONTHS ENDED OCTOBER 31 2012	2011
Cash Flows From (Used In) Operating Activities		
Loss for the year	**$ (67,532)**	$ (94,127)
Items not affecting cash:		
Depreciation	**-**	300
Stock based compensation	**-**	25,300
Accrued interest	**(1,565)**	1,021
	(69,097)	(67,506)
Changes in non-cash working capital items:		
Prepaid expenses	**6,499**	(10,000)
Other receivables	**5,160**	30,576
Accounts payable and accrued liabilities	**(1,581)**	(16,983)
Cash Outflows From Operating Activities	**(59,019)**	(63,913)
Cash Flows From (Used in) Investing Activities		
Short term investments (net)	**100,000**	750,000
Exploration and evaluation assets	**(8,235)**	(1,276,770)
Acquisition of equipment	**-**	-
B.C. Mining Exploration Tax Credit receivable	**-**	-
Cash Outflows from Investing Activities	**91,765**	(526,770)
(Decrease) Increase In Cash For The Year	**32,746**	(590,683)
Cash, Beginning Of Year	**20,365**	970,396
Cash, End Of Year	**$ 53,111**	$ 379,713
Supplemental Disclosure Of Cash Flow Information		
Interest paid	**$ -**	$ -
Income taxes paid	**$ -**	$ -

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

CARMAX MINING CORP.

NOTES TO THE CONDENSED INTERIM FINANCIAL STATEMENTS
FOR THE THREE MONTHS ENDED OCTOBER 31, 2012
(Unaudited)
(Expressed in Canadian Dollars)

1. NATURE OF OPERATIONS

Carmax Mining Corp. was incorporated under the Canada Business Corporations Act on June 16, 2000 and is listed on the TSX Venture Exchange.

The address of the Company's corporate office and principal place of business is Suite 300 – 235 West 15th Street, West Vancouver, British Columbia, V7T 2X1.

The Company's principal business activity is the acquisition and exploration of resource properties. The Company presently has no proven or probable reserves and on the basis of information to date, it has not yet determined whether these properties contain economically recoverable ore reserves. Consequently, the Company considers itself to be an exploration stage company.

2. BASIS OF PRESENTATION

a) Statement of Compliance

These condensed interim financial statements have been prepared in accordance with IAS 34 Interim Financial Reporting ("IAS34") using accounting policies consistent with the International Financial Reporting Standards ("IFRS") and interpretations of the International Financial Reporting Interpretations Committee ("IFRIC"). They do not include all information required for full annual financial statements and should be read in conjunction with the Audited Financial Statements of the Company for the year ended July 31, 2012.

These condensed interim consolidated financial statements were authorized for issue by the Board of Directors on December 20, 2012.

b) Basis of Measurement

These condensed interim financial statements have been prepared on a historical cost basis except for financial instruments that have been measured at fair value. In addition, these financial statements have been prepared using the accrual basis of accounting, except for cash flow information. The functional currency of the Company is the Canadian dollar, being the currency of the economic environment of the Company's operations. The functional currency is also the presentation currency.

The preparation of financial statements requires management to make judgments, estimates and assumptions that affect the application of policies and reported amounts of assets and liabilities, income and expenses. The estimates and associated assumptions are based on historical experience and various other factors that are believed to be reasonable under the circumstances, the results of which form the basis of making the judgments about carrying values of assets and liabilities that are not readily apparent from other sources. Actual results may differ from these estimates. The estimates and underlying assumptions are reviewed on an ongoing basis. Revisions to accounting estimates are recognized in the period in which the estimate is revised if the revision affects only that period or in the period of the revision and future periods if the revision affects both current and future periods. See Note 4 for Critical Accounting Estimates and Judgments made by management in the application of IFRS.

3. SIGNIFICANT ACCOUNTING POLICIES

The preparation of financial data is based on accounting principles and practices consistent with those used in the preparation of the audited financial statements as at July 31, 2012. The accompanying condensed interim financial statements should be read in conjunction with the Company's audited financial statements for the year ended July 31, 2012.

Accounting Standards Issued but Not Yet Applied

International Financial Reporting Standard 9, Financial Instruments ("IFRS 9"), was issued in November 2009. It 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. Where such equity instruments are measured at fair value through other comprehensive income, dividends, to the extent not clearly representing a return of investment, are recognized in profit or loss; however, other gains and losses (including impairments) associated with such instruments remain in accumulated comprehensive income indefinitely. This standard is required to be applied for accounting periods beginning on or after January 1, 2015, with earlier adoption permitted. The Company has not yet assessed the impact of the standard or determined whether it will adopt the standard early.

The following new standards, amendments and interpretations, which have not been early adopted in these consolidated financial statements, will not have an effect on the Company's future results and financial position:

- IFRS 10 Establishes principles for the presentation and preparation of consolidated financial statements when an entity controls one or more other entities (Effective for annual periods beginning on or after January 1, 2013)
- IFRS 11 Establishes principles for financial reporting by parties to a joint arrangement (Effective for annual periods beginning on or after January 1, 2013)
- IFRS 12 Applies to entities that have an interest in a subsidiary, a joint arrangement, an associate or an unconsolidated structured entity (Effective for annual periods beginning on or after January 1, 2013)
- IFRS 13 Defines fair value, sets out in a single IFRS framework for measuring value and requires disclosures about fair value measurements (Effective for annual periods beginning on or after January 1, 2013)
- IAS 27 Contains accounting and disclosure requirements for investments in subsidiaries, joint ventures and associates when an entity prepares separate financial statements (Effective for periods beginning on or after January 1, 2013)
- IAS 28 Sets out the requirements for the application of the equity method when accounting for investments in associates and joint ventures (Effective for periods beginning on or after January 1, 2013)

4. USE OF ESTIMATES AND JUDGEMENTS

The preparation of financial statements in conformity with IFRS requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of income and expenses during the reporting period. The preparation of the financial statements also requires management to exercise judgment in the process of applying the accounting policies.

On an on-going basis, management evaluates its judgments and estimates in relation to assets, liabilities and expenses. Management uses historical experience and various other factors it believes to be reasonable under the given circumstances, as the basis for its judgments and estimates. Revisions to accounting estimates are recognised prospectively from the period in which the estimates are revised. Actual outcomes may differ from those estimates under different assumptions and conditions.

<u>Critical Accounting Estimates</u>

The following are the key estimate and assumption uncertainties that have a significant risk of resulting in a material adjustment within the next financial year.

Impairment

Assets, especially exploration and evaluation assets are reviewed for impairment whenever events or changes in circumstances indicate that their carrying amounts exceed their recoverable amounts. The assessment of the recoverable amount requires estimates and assumptions such as discount rates, exchange rates, commodity prices, future capital requirements and future operating performance.

Share-based payment transactions

The Company measures the cost of equity-settled transactions with employees by reference to the fair value of the equity instruments at the date at which they are granted. Estimating fair value for share-based payment transactions requires determining the most appropriate valuation model, which is dependent on the terms and conditions of the grant. This estimate also requires determining the most appropriate inputs to the valuation model including the expected life of the share option, volatility and dividend yield and making assumptions about them. The assumptions and models used for estimating fair value for share-based payment transactions are disclosed in Notes 9 and 10.

Title to mineral property interests

Although 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 prior agreements or transfers and title may be affected by undetected defects.

Rehabilitation provisions

Management's best estimates regarding the rehabilitation provisions are based on the current economic environment. Changes in estimates of contamination, restoration standards and restoration activities result in changes to provisions from period to period. Actual rehabilitation provisions will ultimately depend on future market prices for future rehabilitation obligations. Based on management's best estimate, the Company does not have any significant rehabilitation obligations as at October 31, 2012 and July 31, 2012.

4. USE OF ESTIMATES AND JUDGEMENTS (Continued)

Critical Judgments Used in Applying Accounting Policies

Going concern

Financial statements are prepared on a going concern basis unless management either intends to liquidate the Company or to cease trading, or has no realistic alternative to do so. Assessment of the Company's ability to continue as a going concern requires the consideration of all available information about the future, which is at least, but not limited to, twelve months from the end of the reporting period. This information includes estimates of future cash flows and other factors, the outcome of which is uncertain. When management is aware, in making its assessment, of material uncertainties related to events or conditions that may cost significant doubt upon the Company's ability to continue as a going concern those uncertainties are disclosed. Management has determined that disclosure is not required in these statements.

Exploration and evaluation expenditures

The application of the Company's accounting policy for exploration and evaluation expenditures requires judgment in determining whether it is likely that future economic benefits will flow to the Company, which may be based on assumptions about future events or circumstances. Estimates and assumptions made may change if new information becomes available. If, after the expenditure is capitalized, information becomes available suggesting that the recovery of the expenditure is unlikely, the amount capitalized is written off in the statement of operations in the period the new information becomes available.

Income taxes

Significant judgment is required in determining the provision for income taxes. There are many transactions and calculations undertaken during the ordinary course of business for which the ultimate tax determination is uncertain. The Company recognizes liabilities and contingencies for anticipated tax audit issues based on the Company's current understanding of the tax law. For matters where it is probable that an adjustment will be made, the Company records its best estimate of the tax liability including the related interest and penalties in the current tax provision. Management believes they have adequately provided for the probable outcome of these matters; however, the final outcome may result in a materially different outcome than the amount included in the tax liabilities.

In addition, the Company recognizes deferred tax assets relating to tax losses carried forward to the extent there are sufficient taxable temporary differences (deferred tax liabilities) relating to the same taxation authority and the same taxable entity against which the unused tax losses can be utilized. However, utilization of the tax losses also depends on the ability of the taxable entity to satisfy certain tests at the time the losses are recouped.

(Expressed in Canadian Dollars)

5. EQUIPMENT

	FIELD EQUIPMENT
Cost	
Balance, August 1, 2012	$ 8,500
Additions	
Disposals	-
Balance October 31, 2012	$ 8,500
Amortization	
Balance, August 1, 2012	$ 1,987
Charge for the period	638
Disposals	-
Balance October 31, 2012	$ 2,625
Net Book Value	
At October 31, 2012	**$ 5,875**

	FIELD EQUIPMENT
Cost	
Balance, August 1, 2011	$ 4,000
Additions	4,500
Disposals	-
Balance July 31, 2012	$ 8,500
Amortization	
Balance, August 1, 2011	$ 240
Charge for the year	1,747
Disposals	-
Balance July 31, 2012	$ 1,987
Net Book Value	
At July 31, 2012	$ **6,513**

6. INVESTMENT

	OCTOBER 31 2012	JULY 31 2012
Alexandria Minerals Corporation – 100,000 common shares quoted at market value	**$ 11,000**	$ 4,000

(Expressed in Canadian Dollars)

7. RECLAMATION DEPOSITS

Prior to the commencement of exploration of the Eaglehead Property in British Columbia, the Company was required to post two bonds totalling $110,000, which will be refunded to the Company upon completion of reclamation to the satisfaction of the Inspector of Mines. The reclamation deposits are being held in term deposits with various interest rates. The Company has no contractual liabilities or existing obligations arising from environmental or reclamation costs.

8. EXPLORATION AND EVALUATION ASSETS

Mineral property costs for the three month period ended October 31, 2012, comprise:

	WHISKEY JACK CREEK PROPERTY	EAGLEHEAD PROPERTY	TOTAL
Property Acquisition Costs			
Balance, July 31, 2012	$ 4,000	$ 611,500	$ 615,500
Write-off in the period	-	-	-
Balance, October 31, 2012	$ 4,000	$ 611,500	$ 615,500
Deferred exploration expenditures			
Balance, July 31, 2011	$ 474,392	$ 6,385,055	$ 6,859,447
Additions in the year			
Engineering and consulting	-	3,500	3,500
Camp costs	-	7,078	7,078
Supplies	-	-	-
Board and travel	-	-	-
Assays	-	-	-
Reports and mapping	-	-	-
Transportation	-	-	-
Labour and technicians	-	-	-
Assessment costs	-	-	-
Drilling	-	-	-
Equipment rental	-	1,028	1,028
Amortization of field equipment	-	638	638
B.C. Mining Exploration Tax Credit receivable	-	-	-
	-	12,244	12,244
Write-off in the period	-	-	-
Balance, October 31, 2012	$ 474,392	$ 6,397,299	$ 6,871,691
Total balance, October 31, 2012	$ 478,392	$ 7,008,799	$ 7,487,191

(Expressed in Canadian Dollars)

8. EXPLORATION AND EVALUATION ASSETS (Continued)

Mineral property costs for the year ended July 31, 2012 comprise:

	GOLDTIP PROPERTY	WHISKEY JACK CREEK PROPERTY	EAGLEHEAD PROPERTY	TOTAL
Property Acquisition Costs				
Balance, July 31, 2011	$ 329,000	$ 4,000	$ 611,500	$ 944,500
Write-off in the year	(329,000)	-	-	(329,000)
Balance, July 31, 2012	$ -	$ 4,000	$ 611,500	$ 615,500
Deferred exploration expenditures				
Balance, July 31, 2011	$ 82,151	$ 474,392	$ 5,449,078	$ 6,005,621
Additions in the year				
Engineering and consulting	-	-	140,030	140,030
Camp costs	-	-	45,814	45,814
Supplies	-	-	3,076	3,076
Board and travel	-	-	90,219	90,219
Assays	-	-	176,727	176,727
Reports and mapping	-	-	77,700	77,700
Transportation	-	-	18,761	18,761
Labour and technicians	-	-	31,240	31,240
Assessment costs	-	-	-	-
Drilling	-	-	579,220	579,220
Equipment rental	-	-	5,000	5,000
Amortization of field equipment	-	-	1,747	1,747
B.C. Mining Exploration Tax Credit receivable	-	-	(233,557)	(233,557)
	-	-	935,977	935,977
Write-off in the year	(82,151)	-	-	(82,151)
Balance, July 31, 2012	$ -	$ 474,392	$ 6,385,055	$ 6,859,447
Total balance, July 31, 2012	$ -	$ 478,392	$ 6,996,555	$ 7,474,947

8. EXPLORATION AND EVALUATION ASSETS (Continued)

a) Whiskey Jack Creek Property

Prior to August 1, 2010, and per an option agreement, the Company acquired a 100% interest, subject to a 3% net smelter return royalty, in three mineral claims located in Cairo Townships, Ontario, known as the Whiskey Jack Creek Property. Considerations for the acquisition were cash payments totalling $45,000. The Company also incurred exploration expenditures in excess of $200,000, the minimum requirement per the option agreement.

Upon commencement of commercial production on the property, the Company shall pay the optionor a 3% net smelter return royalty to be reduced to 1% after the payment of $2,000,000 in royalty payments.

The Company acquired an additional 5 claims through staking, consisting of 41 units adjoining the Whiskey Jack Creek Property to the south and east.

Prior to August 1, 2010, the Company entered into an Earning Option Agreement with Alexandria Minerals Corporation (“AMC”), whereby the Company granted to AMC the right to explore and acquire a 50% interest in the 41 units owned by the Company adjoining the Whiskey Jack Creek Property, and to acquire a 50% interest in the rights to the Whiskey Jack Creek Property held by the Company. The agreement is subject to a 3% net smelter return royalty, 2% of which can be purchased by AMC for $500,000 per ½%.

Prior to August 1, 2010, AMC earned its 50% interest in the property by issuing a total of 100,000 common shares of AMC with a fair value of $16,000 and paying $25,000 total cash payments. AMC incurred exploration expenditures in excess of the $300,000 minimum amount required under the agreement. A joint venture is to be established and the parties are currently negotiating the agreement, which will designate a 50% interest for each of the Company and AMC to further develop the property; and AMC will be the operator and manager of the property.

b) Eaglehead Property

The Company has an agreement, effective October 31, 2005, with two directors of the Company, to acquire a 100% interest in the Eaglehead Property claims, subject to a 2.5% net smelter return royalty, located near the Dease Lake area of north central British Columbia.

Consideration for the acquisition are cash payments totalling $350,000, issuing 300,000 common shares and spending $6,000,000 in exploration and development work over a period of seven years ending October 31, 2011. The Company will earn 30% after it spends $2,000,000, a further 30% after it spends the next $2,000,000 and a final 40% after it spends the last $2,000,000. The Company may also purchase a 1.5% royalty interest for $2,000,000.

During the year ended July 31, 2008, the Company successfully staked an additional six claims adjoining the Eaglehead Property to the southeast.

During the year ended July 31, 2011, the Company completed all the terms of the acquisition agreement and earned its 100% interest in the property.

(Expressed in Canadian Dollars)

9. SHARE CAPITAL

a) Authorized

An unlimited number of common shares without par value

b) Issued and Outstanding

During the three month period ended October 31, 2012 there were no share issuances.

During the year ended July 31, 2012, there were no share issuances

c) Warrants

A summary of changes in share purchase warrants for the three month period ended October 31, 2012 and the year ended July 31, 2012 is presented below:

	THREE MONTHS ENDED OCTOBER 31, 2012		YEAR ENDED JULY 31, 2012	
	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
Balance, beginning of period	16,549,670	$ 0.28	16,549,670	$ 0.28
Issued	-	-	-	-
Exercised	-	-	-	-
Expired	(2,705,670)	(0.20)		
Balance, end of period	13,844,000	$ 0.40	16,549,670	$ 0.28

As at October 31, 2012, share purchase warrants were outstanding for the purchase of common shares as follows:

NUMBER OF SHARES	EXERCISE PRICE YEAR 2	NUMBER EXERCISABLE AT OCTOBER 31, 2012	EXPIRY DATE
13,844,000	$0.40	13,844,000	May 30, 2013

(Expressed in Canadian Dollars)

9. SHARE CAPITAL (Continued)

d) Broker's Options

A summary of changes in broker's options for the three month period ended October 31, 2012 and the year ended July 31, 2012 is presented below:

	THREE MONTHS ENDED OCTOBER 31, 2012		YEAR ENDED JULY 31, 2011	
	NUMBER	**WEIGHTED AVERAGE EXERCISE PRICE**	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
Balance, beginning of period	**938,610**	**$ 0.20**	938,610	$ 0.20
Granted	**-**	**-**	-	
Balance, end of period	**938,610**	**$ 0.20**	938,610	$ 0.20

As at October 31, 2012, broker's options were outstanding for the purchase of units comprised of one common share and one share purchase warrant as follows:

NUMBER OF SHARES	**EXERCISE PRICE**	**NUMBER EXERCISABLE AT OCTOBER 31, 2012**	**EXPIRY DATE**
938,610	$0.20	938,610	May 30, 2013

10. SHARE-BASED PAYMENTS

Stock Options

The Company has a fixed stock option plan which follows the policies of the TSX Venture Exchange ("TSX-V") regarding stock option awards granted to directors, officers, employees and consultants. The stock option plan allows a maximum of 20% of the issued shares to be reserved for issuance under the plan.

(Expressed in Canadian Dollars)

10. SHARE-BASED PAYMENTS (Continued)

Stock Options (Continued)

A summary of changes in stock options for the three month period ended October 31, 2012 and the year ended July 31, 2012 is presented below:

	THREE MONTHS ENDED OCTOBER 31, 2012		YEAR ENDED JULY 31, 2011	
	NUMBER	**WEIGHTED AVERAGE EXERCISE PRICE**	NUMBER	WEIGHTED AVERAGE EXERCISE PRICE
Balance, beginning of period	**1,971,000**	**$ 0.23**	2,071,000	$ 0.23
Granted	**-**	**-**	50,000	0.20
Expired/forfeited	**-**	**-**	(150,000)	(0.26)
Balance, end of period	**1,971,000**	**$ 0.23**	1,971,000	$ 0.23

As at October 31, 2012, options were outstanding for the purchase of common shares as follows:

NUMBER OF SHARES	**PRICE PER SHARE**	**NUMBER EXERCISABLE AT OCTOBER 31, 2012**	**EXPIRY DATE**
50,000	$ 0.26	50,000	April 24, 2013
271,000	$ 0.24	271,000	October 21, 2013
725,000	$ 0.26	725,000	October 27, 2015
875,000	$ 0.20	875,000	June 17, 2016
50,000	$ 0.20	50,000	September 7, 2016
1,971,000	$ 0.23	1,971,000	

Compensation costs attributable to the granting and vesting of share options are measured at fair value and expensed with a corresponding increase to share-based payment reserve. Upon exercise of the stock options, consideration paid by the option holder together with the amount previously recognized in share-based payment reserve is recorded as an increase to share capital. Upon expiry, the amounts recorded for share-based compensation are transferred to the deficit from the share-based payment reserve.

Options Issued to Employees

The fair value measured at the grant date is determined using a Black-Scholes option pricing model that takes into account the exercise price, expected forfeitures, the term of the option, the share price at grant date and the expected volatility of the underlying share, the dividend yield and the risk free interest rate of the option.

(Expressed in Canadian Dollars)

10. SHARE-BASED PAYMENTS (Continued)

Options Issued to Non-Employees

Options issued to non-employees are measured based on the fair value of the goods or services received at the date of receiving those goods or services. If the fair value of the goods or services received cannot be estimated reliably the options are measured by determining the fair value of the options granted using the Black-Scholes option pricing model.

During the three month period ended October 31, 2012, the Company recorded $nil (three month period ended October 31, 2011 - $25,300) in share–based payment expense for options accruing or vesting during the period.

The fair value of each stock option granted to employees is estimated on the date of grant. The fair value of stock options granted to non-employees that vest over time, are re-valued at each vesting period. All stock options are estimated using the Black-Scholes option-pricing model with weighted average assumptions as follows:

	THREE MONTHS ENDED OCTOBER 31,	
	2012	2011
Risk free rate	**-**	1.82
Dividend yield	**-**	Nil
Expected life	**-**	4.4 Years
Forfeiture rate	**-**	0%
Expected volatility	**-**	144%
Weighted average fair value per option grant	**-**	$0.18

11. RELATED PARTY TRANSACTIONS

Related party transactions are in the normal course of operations and are measured at the amount of consideration established and agreed to by the related parties.

Key management personnel are the persons responsible for the planning, directing and controlling the activities of the Company, and includes both executive and non-executive directors, and entities controlled by such persons. The Company considers all directors and officers of the Company to be key management personnel.

At October 31, 202, included in accounts payable and accrued liabilities is $Nil (July 31, 2012 - $2,577) owing to two companies controlled by individual directors, and $7,600 (July 31, 2012 - $9,184) owing to a company controlled by an officer for services rendered to the Company. The amounts payable are non-interest bearing, unsecured and have no specific terms of repayment.

(Expressed in Canadian Dollars)

11. RELATED PARTY TRANSACTIONS (Continued)

During the three month periods ended October 31, 2012, the Company also incurred the following expenses charged by key management personnel and companies directly controlled by key management personnel.

	THREE MONTHS ENDED OCTOBER 31 2012	2011
Balance Sheet Items		
Deferred exploration expenditures	**$ 3,500**	$ 17,800
	$ 3,500	$ 17,800
Statement of Operations Items		
Consulting	**$ 750**	$ -
Management fees	**15,000**	15,000
Office administration	**6,750**	6,750
Professional fees	**4,500**	5,950
Promotion and entertainment	**-**	2,800
Rent	**6,300**	6,000
Share based payments	**-**	19,000
	$ 33,300	$ 55,500

12. CAPITAL DISCLOSURES

The Company was formed for the purpose of acquiring exploration and development stage natural resource properties. The Board of Directors determines the Company's capital structure and makes adjustments to it based on funds available to the Company, in order to support the acquisition, exploration and development of mineral properties. The directors have not established a quantitative return on capital criteria for capital management.

The Company holds three mineral properties and generates no revenue. Accordingly, the Company will be dependent in the future upon external financing to fund future exploration programs and its administrative costs. The Company will spend existing working capital and raise additional amounts as needed. The Company will continue to assess new properties and seek to acquire an interest in additional properties if management feels there is sufficient geologic or economic potential, provided it has adequate financial resources to do so.

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

The Company's objective when managing capital is to safeguard the Company's ability to continue as a going concern, so that it can continue to provide returns for shareholders and benefits for other stakeholders.

(Expressed in Canadian Dollars)

12. CAPITAL DISCLOSURES (Continued)

The Company considers the items included in the Statement of Changes in Equity as capital. The Company manages the capital structure and makes adjustments to it in light of changes in economic conditions and the risk characteristics of the underlying assets. In order to maintain or adjust the capital structure, the Company may issue new shares through private placements, sell assets to reduce debt or return capital to shareholders. The Company is not subject to externally imposed capital requirements.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Fair Value

IFRS 7 establishes a fair value hierarchy that priorities the input to valuation techniques used to measure fair value as follows:

Level 1 – Applies to assets or liabilities for which there are quoted prices in active markets for identical assets or liabilities.

Level 2 – Applies to assets or liabilities for which there are inputs other than quoted prices included in Level 1 that are observable for the asset or liability, either directly such as quoted prices for similar assets or liabilities in active markets or indirectly such as quoted prices for identical assets or liabilities in markets with insufficient volume or infrequent transactions.

Level 3 – Applies to assets or liabilities for which there are unobservable market data.

Financial assets measured at fair value on a recurring basis:

	FAIR VALUE INPUT LEVEL	**AS AT OCTOBER 31, 2012**		AS AT JULY 31, 2012	
		CARRYING AMOUNT	**ESTIMATED FAIR VALUE**	CARRYING AMOUNT	ESTIMATED FAIR VALUE
Financial Assets:					
Cash	1	$ 53,111	$ 53,111	$ 20,365	$ 20,365
Short term investment	1	$ 652,730	$ 652,730	$ 751,165	$ 751,165
Investment	1	$ 11,000	$ 11,000	$ 4,000	$ 4,000

Due to the relatively short term liquidity of reclamation deposits and accounts payable and accrued liabilities, the fair value of these instruments approximate their carrying values.

Risk management is carried out by the Company's management team with guidance from the Board of Directors. The Company's risk exposures and their impact on the Company's financial instruments are summarized below:

a) Credit Risk

The Company's credit risk is primarily attributable to cash, short term investments, reclamation deposits and the investment. Cash, short-term investments and reclamation deposits are held with one reputable Canadian chartered bank which is closely monitored by management. The investment consists of shares of Alexandria Minerals Corp, a publicly listed entity. Management believes that the credit risk concentration with respect to financial instruments included in cash, short-term investments and amounts receivable is minimal.

13. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT (Continued)

b) Liquidity Risk

The Company's approach to managing liquidity risk is to ensure that it will have sufficient liquidity to meet liabilities when due. As at October 31, 2012, the Company held cash and short term investments aggregating $705,841 (July 31, 2012 - $771,530) and had current liabilities of $44,517 (July 31, 2012 - $47,728). All of the Company's liabilities have contractual maturities of less than 30 days and are subject to normal trade terms.

c) Market Risk

i) Interest Rate Risk

The Company had cash balances and short term investments, and no interest bearing debt. The Company's current policy is to invest excess cash in investment-grade short-term deposit certificates issued by its banking institutions. The Company periodically monitors the investments it makes and is satisfied with the creditworthiness of its banks.

ii) Foreign Currency Risk

The Company's functional currency and the reporting currency is the Canadian dollar. Periodically the Company incurs charges on its operations for settlement in currencies other than its functional currency and any gain or loss arising on such transactions is recorded in operations for the year.

The Company does not participate in any hedging activities to mitigate any gains or losses which may arise as a result of exchange rate changes.

As at October 31, 2012, the Company held no financial assets or liabilities which were denominated in currencies other than the Canadian dollar.

iii) Commodity Price Risk

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

14. COMPARATIVE AMOUNTS

Certain of the comparative amounts have been restated to conform with the presentation adopted for the current period.