TOWER
RESOURCES LTD.

# CONDENSED INTERIM FINANCIAL STATEMENTS

## (UNAUDITED)

## For the three and six months ended April 30, 2013

## (Expressed in Canadian Dollars)

**CONTENTS**

## NOTICE OF NO AUDITOR REVIEW OF CONDENSED INTERIM FINANCIAL STATEMENTS

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

The accompanying unaudited condensed interim financial statements have been prepared by and are the responsibility of management.

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

**TOWER RESOURCES LTD.**
CONDENSED INTERIM STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian Dollars - unaudited)

| | **April 30, 2013** | **October 31, 2012** |
|---|---|---|
| | **$** | **$** |
| **ASSETS** | | |
| **Current** | | |
| Cash | 2,341,836 | 1,277,454 |
| Receivables (Note 3) | 31,834 | 184,762 |
| Prepaid expenses | 34,793 | 24,932 |
| | 2,408,463 | 1,487,148 |
| **Property and equipment** (Note 4) | 26,940 | 28,222 |
| **Exploration and evaluation assets** (Note 5) | 2,399,349 | 2,114,860 |
| **Exploration and evaluation assets - oil and gas** (Note 6) | 1 | 1 |
| **Reclamation bonds** (Note 7) | 45,000 | 45,000 |
| | **4,879,753** | **3,675,231** |
| **LIABILITIES** | | |
| **Current** | | |
| Accounts payable and accrued liabilities (Note 8) | 64,124 | 242,310 |
| Flow-through premium liability (Note 9) | 200,051 | - |
| | 264,175 | 242,310 |
| **Rehabilitation obligation** | 13,000 | 13,000 |
| | 277,175 | 255,310 |
| **Shareholders' equity** | | |
| Share capital (Note 9) | 11,887,437 | 10,960,603 |
| Reserves (Note 9) | 1,194,786 | 698,449 |
| Deficit | (8,479,645) | (8,239,131) |
| | 4,602,578 | 3,419,921 |
| | **4,879,753** | **3,675,231** |

**NATURE OF OPERATIONS AND GOING CONCERN (Note 1)**

*Approved and authorized on behalf of the Board on July 2, 2013:*

"Mark Vanry"
*Mark Vanry, Director*

"Steve Vanry"
*Steve Vanry, Director*

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

**TOWER RESOURCES LTD.**
CONDENSED INTERIM STATEMENTS OF LOSS AND COMPREHENSIVE LOSS
(Expressed in Canadian Dollars - unaudited)

| | For the three months ended April 30, | | For the six months ended April 30, | |
|---|---|---|---|---|
| | **2013** | **2012** | **2013** | **2012** |
| | **$** | **$** | **$** | **$** |
| **Expenses** | | | | |
| Accounting and audit | 12,180 | 19,907 | 15,680 | 28,467 |
| Consulting fees | 2,499 | 38,219 | 23,844 | 55,419 |
| Depreciation | 5,480 | 8,135 | 10,736 | 8,135 |
| Foreign exchange loss | 2 | 154 | 2 | 576 |
| Legal fees | 120 | 1,274 | 1,696 | 9,174 |
| Management fees | 22,500 | 5,000 | 45,000 | 5,000 |
| Office and miscellaneous | 71,973 | 43,109 | 113,384 | 77,316 |
| Property examination costs | - | 946 | - | 5,849 |
| Share-based compensation (Note 9) | 40,911 | 126,710 | 128,117 | 247,473 |
| Transfer agent and filing fees | 6,091 | 12,010 | 8,609 | 17,090 |
| Travel and promotion | 1,570 | 12,430 | 11,230 | 16,919 |
| Wages and salaries | 2,865 | - | 10,667 | - |
| | (166,191) | (267,894) | (368,965) | (471,418) |
| Net oil and gas gain (loss) | (341) | (226) | (341) | 63 |
| Interest income | 7,988 | 13,342 | 14,235 | 13,707 |
| Reversal of flow-through premium liability (Note 9) | 14,962 | 15,657 | 20,004 | 15,657 |
| Other income | - | 199 | - | 249 |
| | 22,609 | 28,972 | 33,898 | 29,676 |
| **Loss and comprehensive loss for the period** | **(143,582)** | **(238,922)** | **(335,067)** | **(441,742)** |
| **Basic and diluted loss per share** | **(0.00)** | **(0.01)** | **(0.01)** | **(0.02)** |
| **Weighted average number of common shares outstanding** | **33,411,960** | **26,132,211** | **32,324,755** | **25,196,686** |

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

**TOWER RESOURCES LTD.**
CONDENSED INTERIM STATEMENTS OF CASH FLOWS
(Expressed in Canadian Dollars - unaudited)

| | For the six months ended April 30, | |
|---|---|---|
| | **2013** | **2012** |
| | **$** | **$** |
| **Cash flows used in operating activities** | | |
| Net loss for the period | (335,067) | (441,742) |
| Items not affecting cash: | | |
| Depreciation | 10,736 | 8,135 |
| Share-based compensation | 128,117 | 247,473 |
| Reversal of flow-through premium liability | (20,004) | (15,657) |
| Changes in non-cash working capital items | | |
| Receivables | 152,928 | (6,405) |
| Prepaid expenses | (9,861) | (57,348) |
| Accounts payable and accrued liabilities | (30,800) | (12,124) |
| | (103,951) | (277,668) |
| **Cash flows used in investing activities** | | |
| Reclamation bonds | - | (25,000) |
| Acquisition of equipment | (9,454) | (41,098) |
| Exploration and evaluation assets expenditures | (387,625) | (191,003) |
| | (397,079) | (257,101) |
| **Cash flows from financing activities** | | |
| Proceeds from share issued | 1,760,440 | 1,748,000 |
| Share issuance costs | (195,028) | (16,340) |
| | 1,565,412 | 1,731,660 |
| **Net change in cash** | 1,064,382 | 1,196,891 |
| **Cash, beginning of period** | 1,277,454 | 2,058,418 |
| **Cash, end of period** | **2,341,836** | **3,255,309** |
| **Non-cash transactions** | | |
| Shares issued for exploration and evaluation assets acquisition | 44,250 | 148,500 |
| Exploration and evaluation assets expenditures in accounts payable at period end | 24,140 | 18,600 |
| Share issuance costs in accounts payable and accrued liabilities at period end | - | 57,721 |
| Reclassification from reserves to deficit due to cancellation of stock options | 94,553 | - |

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

**TOWER RESOURCES LTD.**

CONDENSED INTERIM STATEMENTS OF CHANGES IN SHAREHOLDERS' EQUITY

(Expressed in Canadian Dollars - unaudited)

| | Number of Shares Issued | Capital Stock | Reserves | Deficit | Total Shareholders' Equity |
|---|---|---|---|---|---|
| | | $ | $ | $ | $ |
| **Balance at October 31, 2011** | 22,961,933 | 9,392,136 | 240,524 | (7,451,771) | 2,180,889 |
| Issuance of shares | 4,370,000 | 1,493,500 | - | - | 1,493,500 |
| Share issuance costs | - | (73,533) | - | - | (73,533) |
| Shares issued for exploration and evaluation assets acquisition | 425,000 | 148,500 | - | - | 148,500 |
| Share-based compensation | - | - | 247,473 | - | 247,473 |
| Loss for the period | - | - | - | (441,742) | (441,742) |
| **Balance at April 30, 2012** | 27,756,933 | 10,960,603 | 487,997 | (7,893,513) | 3,555,087 |
| Share-based compensation | - | - | 210,452 | - | 210,452 |
| Loss for the period | - | - | - | (345,618) | (345,618) |
| **Balance at October 31, 2012** | 27,756,933 | 10,960,603 | 698,449 | (8,239,131) | 3,419,921 |
| Issuance of shares | 5,501,375 | 1,131,880 | 408,505 | - | 1,540,385 |
| Share issuance costs | - | (195,028) | - | - | (195,028) |
| Shares issued for exploration and evaluation assets acquisition | 175,000 | 44,250 | - | - | 44,250 |
| Agent's warrants issued for private placement | - | (54,268) | 54,268 | - | - |
| Stock options cancelled | | | (94,553) | 94,553 | - |
| Share-based compensation | - | - | 128,117 | - | 128,117 |
| Loss for the period | - | - | - | (335,067) | (335,067) |
| **Balance at April 30, 2013** | **33,433,308** | **11,887,437** | **1,194,786** | **(8,479,645)** | **4,602,578** |

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

## 1. NATURE OF OPERATIONS AND GOING CONCERN

### Nature of operations

Tower Resources Ltd. (“the Company”) is incorporated under the laws of British Columbia, Canada. The Company trades on the TSX Venture Exchange ("TSX-V") under the symbol TWR. The Company’s head office, principal address and registered and records office is located at 530 – 510 Burrard Street, Vancouver, BC V6C 3A8.

The condensed interim financial statements of the Company are presented in Canadian dollars, which is the functional currency of the Company.

### Going concern

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

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

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

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

| | April 30, 2013 | October 31, 2012 |
|---|---|---|
| | $ | $ |
| Deficit | (8,479,645) | (8,239,131) |
| Working capital | 2,144,288 | 1,244,838 |

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The following is a summary of significant accounting policies used in the preparation of these condensed interim financial statements.

**Statement of compliance**

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

This condensed interim financial report does not include all of the information required of a full annual financial report and is intended to provide users with an update in relation to events and transactions that are significant to an understanding of the changes in financial position and performance of the Company since the end of the last annual reporting period. It is therefore recommended that this financial report be read in conjunction with the annual financial statements of the Company for the year ended October 31, 2012. The accounting policies applied in preparation of these unaudited condensed interim financial statements are consistent with those applied and disclosed in the Company's financial statements for the year ended October 31, 2012.

These condensed interim financial statements were authorized by the Board of Directors on July 2, 2013.

**Basis of presentation**

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

**Functional currency**

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

**Use of estimates**

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

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

The most significant accounts that require estimates as the basis for determining the stated amounts include the valuation of share-based compensation and income taxes.

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

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

## 2. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (continued)

**Use of estimates (continued)**

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

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

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

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

**New accounting standards not yet adopted**

A number of new standards, amendments to standards and interpretations applicable to the Company are not yet effective for the three months ended April 30, 2013 and have not been applied in preparing these financial statements. The Company is currently considering the possible effects of the new and revised standards which will be effective to the Company's financial statements for the year ending October 31, 2014 or later:

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

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

c) IFRS 13 – Fair Value Measurement is a comprehensive standard that defines fair value, requires disclosure about fair value measurement and provides a framework for measuring fair value when it is required or permitted within the IFRS standards. The amendments are effective for annual periods beginning on or after January 1, 2013 with early adoption permitted.

d) IAS 32 – Financial Instruments: Presentation amendment provides clarification on the application of offsetting rules. The amendments are effective for annual periods beginning on or after January 1, 2014.

(Expressed in Canadian Dollars - unaudited)

## 3. RECEIVABLES

| | April 30, 2013 | October 31, 2012 |
|---|---|---|
| | $ | $ |
| Harmonized sales tax recoverable | 20,530 | 139,280 |
| BC mineral exploration tax credit | - | 12,739 |
| Interest receivable | 11,225 | 9,751 |
| Other receivable | 79 | 22,992 |
| | **31,834** | **184,762** |

## 4. EQUIPMENT

| | Computer hardware | Computer software | Equipment | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Cost:** | | | | |
| At October 31, 2012 | 14,135 | 23,875 | 10,701 | 48,711 |
| Additions | 1,784 | 7,670 | - | 9,454 |
| At April 30, 2013 | 15,919 | 31,545 | 10,701 | 58,165 |
| **Depreciation:** | | | | |
| At October 31, 2012 | 7,480 | 11,938 | 1,071 | 20,489 |
| Charge for the period | 1,886 | 7,887 | 963 | 10,736 |
| At April 30, 2013 | 9,366 | 19,825 | 2,034 | 31,225 |
| **Net book value:** | | | | |
| At October 31, 2012 | 6,655 | 11,937 | 9,630 | 28,222 |
| **At April 30, 2013** | **6,553** | **11,720** | **8,667** | **26,940** |

| | Computer hardware | Computer software | Equipment | Total |
|---|---|---|---|---|
| | $ | $ | $ | $ |
| **Cost:** | | | | |
| At October 31, 2011 | 7,890 | - | - | 7,890 |
| Additions | 6,245 | 23,875 | 10,701 | 40,821 |
| At October 31, 2012 | 14,135 | 23,875 | 10,701 | 48,711 |
| **Depreciation:** | | | | |
| At October 31, 2011 | 3,949 | - | - | 3,949 |
| Charge for the year | 3,531 | 11,938 | 1,071 | 16,540 |
| At October 31, 2012 | 7,480 | 11,938 | 1,071 | 20,489 |
| **Net book value:** | | | | |
| At October 31, 2011 | 3,941 | - | - | 3,941 |
| **At October 31, 2012** | **6,655** | **11,937** | **9,630** | **28,222** |

(Expressed in Canadian Dollars - unaudited)

## 5. EXPLORATION AND EVALUATION ASSETS

| | Dragon | Dorado | JD | Baez | Sinkut | Straw | Waterloo | Total |
|---|---|---|---|---|---|---|---|---|
| | $ | $ | $ | $ | $ | $ | $ | $ |
| Balance, October 31, 2011 | **78,227** | **38,135** | **61,574** | **1,303** | **-** | **-** | **12,984** | **192,223** |
| **Acquisition costs** | - | - | 44,208 | 15,112 | 4,682 | 782 | 213,082 | 277,866 |
| **Deferred costs** | | | | | | | | |
| Assays | - | - | 144,592 | 7,736 | - | - | 5,580 | 157,908 |
| Annual mineral rights | - | - | 46,836 | - | - | - | - | 46,836 |
| Consulting services | - | - | 64,947 | 8,000 | - | - | - | 72,947 |
| Drilling | - | - | 419,780 | 436 | - | - | 132,067 | 552,283 |
| Equipment rental | - | - | 7,265 | 190 | - | - | 1,621 | 9,076 |
| Field supplies | - | - | 31,102 | 9,133 | 90 | 260 | 8,897 | 49,482 |
| Food | - | - | 24,330 | - | - | 161 | 6,221 | 30,712 |
| Geologist | - | - | 191,669 | 24,855 | 1,540 | 1,810 | 66,903 | 286,777 |
| Site development | - | - | 65,086 | - | - | - | - | 65,086 |
| Helicopter | - | - | 417,422 | - | - | - | - | 417,422 |
| Travel | - | - | 33,788 | 3,371 | - | 76 | 826 | 38,061 |
| Vehicle | - | - | 30,980 | 3,775 | 62 | 257 | 9,189 | 44,263 |
| Total costs incurred during the year | - | - | 1,522,005 | 72,608 | 6,374 | 3,346 | 444,386 | 2,048,719 |
| Write off of exploration and evaluation assets | (78,227) | (38,135) | - | - | (6,374) | (3,346) | - | (126,082) |
| Balance, October 31, 2012 | **-** | **-** | **1,583,579** | **73,911** | **-** | **-** | **457,370** | **2,114,860** |
| **Acquisition costs** | - | - | 90,116 | 856 | - | - | - | 90,972 |
| **Deferred costs** | | | | | | | | |
| Assays | - | - | 31 | - | - | - | 6,455 | 6,486 |
| Consulting services | - | - | 6,400 | 28,404 | - | - | 9,059 | 43,863 |
| Equipment rental | - | - | - | - | - | - | 830 | 830 |
| Field supplies | - | - | 3,301 | 795 | - | - | 520 | 4,616 |
| Food | - | - | 213 | 66 | - | - | - | 279 |
| Geologist | - | - | 67,850 | 46,300 | - | - | 11,880 | 120,030 |
| Site development | - | - | - | - | - | - | 3,185 | 3,185 |
| Travel | - | - | 5,032 | - | - | - | - | 5,032 |
| Vehicle | - | - | 19 | 27 | - | - | 3,150 | 3,196 |
| Total costs incurred during the period | - | - | 172,962 | 76,448 | - | - | 35,079 | 284,489 |
| Balance, April 30, 2013 | **-** | **-** | **1,756,541** | **150,359** | **-** | **-** | **492,449** | **2,399,349** |

(Expressed in Canadian Dollars - unaudited)

## 5. EXPLORATION AND EVALUATION ASSETS (continued)

### *DRAGON AND DORADO PROPERTIES*

On June 26, 2011, the Company entered into an option agreement with Sidewinder Exploration Ltd. ("Sidewinder") to acquire up to a 100% interest in certain mineral properties, known as "Dragon" and "Dorado", located on Vancouver Island, British Columbia. Under the option agreement, the Company may earn an initial 75% interest in the properties by making cash payments of $45,000 and issuing 300,000 common shares to Sidewinder, in addition to funding aggregate exploration expenditures of $2,000,000 over a total 41-month period. During fiscal 2011, the Company paid $20,000 and issued 300,000 common shares valued at $72,000.

During the year ended October 31, 2012, the Company decided to discontinue the Dragon and Dorado projects, and as a result wrote off related exploration and evaluation assets of $116,362.

### *JD PROPERTY*

On September 7, 2011 the Company entered into an option agreement to acquire the JD gold - silver property, comprised of certain mineral claims, located in the Omineca mining division of British Columbia. Under the terms of the option agreement, the Company may acquire a 100% interest in the property by making cash payments of $200,000, and issuing 1,200,000 common shares over a 5-year period, in addition to funding aggregate exploration expenditures of $5,000,000 over a total 60-month period as follows:

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

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

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

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

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

(Expressed in Canadian Dollars - unaudited)

## 5. EXPLORATION AND EVALUATION ASSETS (continued)

### *WATERLOO PROPERTY*

On October 18, 2011 the Company entered into an option agreement to acquire the Waterloo property, comprised of certain mineral claims, located in the Osoyoos mining division of British Columbia. Under the terms of the option agreement, the Company may acquire a 75% interest in the property by making cash payments of $70,000 and issuing 400,000 common shares to the vendor, in addition to funding aggregate exploration expenditures of $2,000,000 over a total 42-month period as follows:

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

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

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

The Vice-President of Exploration of the Company has an interest in the vendor.

### *BAEZ, SINKUT, AND STRAW PROPERTIES*

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

During the year ended October 31, 2012, the Company decided to discontinue the Sinkut and Straw projects, and as a result wrote off related exploration and evaluation assets of $9,720.

## 6. EXPLORATION AND EVALUATION ASSETS - OIL AND GAS

| | April 30, 2013 and October 31, 2012 Acquisition Costs |
|---|---|
| Poplar Winstar Strachan | $ 1 |

### *POPLAR WINSTAR STRACHAN*

On December 4, 2006, the Company entered into an agreement to participate in the Winstar Strachan 8-10-38-10 W5M well in the West Central area of Alberta. The Company paid $300,000 to earn an equalization interest of approximately 1.2367 %. During the year ended October 31, 2009, management of the Company wrote down the value of the property to the estimated recoverable amount of $1.

Rehabilitation obligations of $13,000 have been recorded based on the Company's proportionate share of obligations estimated by the operators of the properties. The estimated values of the obligations have not been discounted as they are immaterial and an estimate of the timing of the future cash flows is not determinable.

(Expressed in Canadian Dollars - unaudited)

## 7. RECLAMATION BONDS

In relation to the JD, Waterloo, and Baez properties, the Company has posted reclamation bonds totalling $45,000 (October 31, 2012 - $45,000).

## 8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

| | April 30, 2013 | October 31, 2012 |
|---|---|---|
| | $ | $ |
| Accounts payable | 33,544 | 186,396 |
| Accrued liabilities | 5,023 | 39,469 |
| Due to related parties (Note 10) | 25,557 | 16,445 |
| | **64,124** | **242,310** |

## 9. SHARE CAPITAL AND RESERVES

**Authorized share capital**

Unlimited number of common shares without par value.

**Issued share capital**

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

In December 2011, the Company issued 400,000 common shares valued at $140,000 pursuant to the Waterloo property option agreement (Note 5).

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

In April 2012, the Company issued 25,000 common shares valued at $8,500 pursuant to the Belle property option agreement (Note 5).

In December 2012, the Company issued 150,000 common shares valued at $40,500 pursuant to the JD property option agreement (Note 5).

In December 2012, the Company completed a private placement of 5,501,375 flow-through units at a price of $0.32 per unit for gross proceeds of $1,760,440. Each unit is comprised of one flow-through common share and one-half of one common share purchase warrant which entitles the holder to purchase one additional common share of the company for $0.40 up to December 6, 2014. The flow-through units had an associated flow-through premium liability of $220,055 on issuance. The Company incurred commissions and expenses of $195,028 related to this financing.

In April 2013, the Company issued 25,000 common shares valued at $3,750 pursuant to the Belle property option agreement (Note 5).

(Expressed in Canadian Dollars - unaudited)

**9. SHARE CAPITAL AND RESERVES (continued)**

**Stock Options**

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

During the six months ended April 30, 2013, the Company granted 450,000 (April 30, 2012 – 450,000) incentive stock options with a fair value of $56,384 (April 30, 2012 – $181,293). During the quarter ended April 30, 2013, the Company expensed $128,117 (April 30, 2012 – $247,473), which was value of stock options vested during the period and was recorded in share-based compensation and share option reserves.

During the six months ended April 30, 2013, the Company cancelled 300,000 (April 30, 2013 – Nil) incentive stock options granted in February and March 2012, and accordingly reversed $94,553 from deficits.

The weighted average fair value of stock options granted during the six months ended April 30, 2013 was $0.13 (April 30, 2012 - $0.40) per option.

The fair value of options granted is estimated on the grant date using the Black-Scholes option pricing model using the variables as follows:

| | **For the six months ended April 30,** | |
|---|---|---|
| | **2013** | **2012** |
| Risk-free interest rate | **1.24%** | 1.51% |
| Expected option life in years | **5 years** | 5 years |
| Expected stock price volatility | **186%** | 179% |
| Expected dividend yield | **0%** | 0% |
| Expected forfeiture rate | **0%** | 0% |

A summary of stock options activities are as follows:

| | **Number of options** | **Weighted average exercise price** |
|---|---|---|
| | | **$** |
| Outstanding at October 31, 2011 | 1,643,750 | 0.37 |
| Granted | 1,100,000 | 0.33 |
| Outstanding at October 31, 2012 | 2,743,750 | 0.35 |
| Granted | 450,000 | 0.13 |
| Cancelled | (300,000) | 0.35 |
| Outstanding at April 30, 2013 | 2,893,750 | 0.32 |

(Expressed in Canadian Dollars - unaudited)

## 9. SHARE CAPITAL AND RESERVES (continued)

### Stock Options (continued)

The Company has outstanding options entitling the holder to purchase an aggregate of common shares at April 30, 2013 as follows:

| Exercise Price | Number Outstanding | Number Exercisable | Expiry Date |
|---|---|---|---|
| $ | | | |
| 0.40 | 456,250 | 456,250 | November 10, 2013 |
| 0.40 | 187,500 | 164,063 | August 12, 2014 |
| 0.35 | 1,000,000 | 875,000 | September 29, 2016 |
| 0.35 | 100,000 | 75,000 | December 9, 2016 |
| 0.45 | 50,000 | 31,250 | April 5, 2017 |
| 0.30 | 250,000 | 125,000 | May 24, 2017 |
| 0.30 | 400,000 | 150,000 | October 25, 2017 |
| 0.13 | 450,000 | 56,250 | April 9, 2018 |
| | 2,893,750 | 1,932,813 | |

**Warrants**:

In conjunction with the December 2012 financing, the Company issued 2,750,687 warrants related to the flow-through units exercisable into one common share of the Company at a price of $0.40 for a period of 24 months. The warrants were valued at $408,505 using the Black-Scholes pricing model with the following assumptions: estimated life of two years, risk free interest rate of 1.12%, volatility of 138%, forfeiture rate of nil, and nil forecasted dividend yield. The Company also issued 342,825 agent's warrants exercisable at $0.32 per share for a period of two years. The agent's warrants were valued at $54,268 calculated using the Black-Scholes option pricing model assuming a life expectancy of two years, a risk free rate of 1.12%, a forfeiture rate of nil, and volatility of 138%.

A summary of share purchase warrant activities are as follows:

| | Number of warrants | Weighted average exercise price |
|---|---|---|
| | | $ |
| Outstanding and exercisable at October 31, 2011 and October 31, 2012 | 11,700,000 | 0.40 |
| Issued | 3,093,512 | 0.39 |
| Outstanding and exercisable at April 30, 2013 | 14,793,512 | 0.40 |

The Company has outstanding warrants entitling the holders to purchase an aggregate of 14,793,512 common shares at April 30, 2013 as follows:

| Exercise Price | Number Outstanding | Expiry Date |
|---|---|---|
| $ | | |
| 0.40 | 4,200,000 | December 1, 2014 |
| 0.40 | 2,750,687 | December 6, 2014 |
| 0.32 | 342,825 | December 6, 2014 |
| 0.40 | 7,500,000 | November 2, 2015 |
| | 14,793,512 | |

(Expressed in Canadian Dollars - unaudited)

## 10. RELATED PARTY TRANSACTIONS

The Company entered into the following transactions with related parties during the six months ended April 30, 2013:

a) "Office and miscellaneous" includes rent of $38,828 (April 31, 2012 - $38,623) and other office expenses of $2,063 (April 30, 2012 - $2,069) paid or accrued to a company related by common directors and officers.

Summary of key management personnel compensation:

| | For the six months ended April 30, | |
|---|---|---|
| | **2013** | **2012** |
| | **$** | **$** |
| Accounting and audit | - | 1,330 |
| Management fees | 45,000 | 5,000 |
| Office and miscellaneous | 15,000 | 1,250 |
| Consulting fees | 20,000 | 31,500 |
| Exploration and evaluation assets expenditures | 40,000 | 40,000 |
| Share-based compensation | 82,891 | 159,289 |
| | **202,891** | **238,369** |

Amounts owing to related parties included in accounts payable and accrued liabilities are as follows:

| | **April 30, 2013** | **October 31, 2012** |
|---|---|---|
| | **$** | **$** |
| i. Company with a director in common for expenses | 7,862 | 5,475 |
| ii. CEO for expenses | 11,678 | 4,071 |
| iii. CFO for expenses | 4,801 | 6,683 |
| iv. Former director for loans | 216 | 216 |
| | **25,557** | **16,445** |

## 11. SEGMENTED INFORMATION

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

## 12. FINANCIAL INSTRUMENTS AND RISK MANAGEMENT

Financial instruments measured at fair value are classified into one of three levels in the fair value hierarchy according to the relative reliability of the inputs used to estimate the fair values. 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's financial instruments consist of cash, receivables, reclamation bonds, and accounts payable and accrued liabilities. The fair value of these financial instruments, other than cash, approximates their carrying values. Cash is measured at fair value using level 1 inputs.

The Company is exposed to a variety of financial risks by virtue of its activities including currency, credit, interest rate, liquidity and price risk.

*Credit risk*

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

*Liquidity risk*

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

*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. As of April 30, 2013, the Company held a demand deposit with a face value $2,360,000. A change in interest rates of 1% will change income by $23,600 per annum.

*Foreign currency risk*

The Company is not significantly exposed to foreign currency risk on fluctuations related to items that are denominated in a foreign currency. However, management believes the risk is not currently significant.

*Price risk*

The Company has limited exposure 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.

## 13. CAPITAL MANAGEMENT

The Company manages its capital structure and makes adjustments to it, based on the funds available to the Company, in order to support the acquisition and exploration of exploration and evaluation assets. 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 defines capital that it manages as share capital, options and warrants.

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 is not subject to externally imposed capital restrictions.