SUPERIOR MINING INTERNATIONAL CORPORATION

CONSOLIDATED FINANCIAL STATEMENTS

FOR THE YEARS ENDED
JULY 31, 2012 AND 2011

(Expressed in Canadian dollars)

CHARTERED ACCOUNTANTS
MacKay LLP

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Independent Auditor's Report

To the Shareholders of
Superior Mining International Corporation

We have audited the accompanying consolidated financial statements of Superior Mining International Corporation and its subsidiaries, which comprise the consolidated statements of financial position as at July 31, 2012, July 31, 2011, and August 1, 2010, and the consolidated statements of comprehensive loss, changes in equity and cash flows for the years ended July 31, 2012 and July 31, 2011, and a summary of significant accounting policies and other explanatory information.

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

Auditor's Responsibility
Our responsibility is to express an opinion on these consolidated financial statements based on our audits. We conducted our audits in accordance with Canadian generally accepted auditing standards. Those standards require that we comply with ethical requirements and plan and perform the audits to obtain reasonable assurance about whether the consolidated financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the consolidated financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the consolidated financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the consolidated financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of accounting estimates made by management, as well as evaluating the overall presentation of the consolidated financial statements.

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

Opinion
In our opinion, the consolidated financial statements present fairly, in all material respects, the financial position of Superior Mining International Corporation and its subsidiaries as at July 31, 2012, July 31, 2011, and August 1, 2010 and its financial performance and its cash flows for the years ended July 31, 2012 and July 31, 2011 in accordance with International Financial Reporting Standards.

Emphasis of matter
Without modifying our opinion, we draw attention to Note 1 to the consolidated financial statements which describes the material uncertainty that may cast significant doubt about the ability of Superior Mining International Corporation to continue as a going concern.

"MacKay LLP"

Chartered Accountants
Vancouver, British Columbia
November 28, 2012

SUPERIOR MINING INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF FINANCIAL POSITION
(Expressed in Canadian dollars)

	July 31, 2012	July 31, 2011	August 1, 2010
		(note 18)	(note 18)
ASSETS			
Current assets			
Cash	$ 22,614	$ 107,660	$ 131,537
Receivables (note 4)	9,264	14,749	25,835
Prepaid expenses	15,519	15,544	12,326
Total current assets	47,397	137,953	169,698
Non-current assets			
Exploration and evaluation assets (note 5 and 12)	1,283,408	1,417,637	1,798,880
Equipment (note 6)	-	4,341	6,201
Investments (note 7)	-	-	597,438
Total non-current assets	1,283,408	1,421,978	2,402,519
Total assets	$ 1,330,805	$ 1,559,931	$ 2,572,217
LIABILITIES AND EQUITY			
Current liabilities			
Accounts payable and accrued liabilities (note 8)	$ 311,401	$ 331,276	$ 150,289
Loan payable (note 9)	-	-	708,000
Total current liabilities	311,401	331,276	858,289
Equity			
Capital stock (note 10)	19,022,531	18,311,506	16,154,437
Reserves (note 10)	949,296	778,685	2,020,922
Deficit	(18,957,310)	(17,846,113)	(16,449,708)
Capital and reserve attributable to shareholders of Superior Mining International Corporation	1,014,517	1,244,078	1,725,651
Non-controlling interest	4,887	(15,423)	(11,723)
Total equity	1,019,404	1,228,655	1,713,928
Total liabilities and equity	$ 1,330,805	$ 1,559,931	$ 2,572,217

Nature and continuance of operations (note 1)
Commitments (note 5)
Subsequent events (note 19)

Approved and authorized for issue on November 28, 2012 on behalf of the Board of Directors:

"Cyrus Driver" Director — Cyrus Driver

"Brent Butler" Director — Brent Butler

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

SUPERIOR MINING INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF COMPREHENSIVE LOSS
(Expressed in Canadian dollars)

For the year ended July 31,	2012	2011 (note 18)
EXPENSES		
Amortization	$ 651	$ -
Bank charges and interest	347	19,930
Consulting (note 12)	112,312	98,977
Filing and transfer agent fees	15,924	18,629
Foreign exchange loss (gain)	(4,196)	4,984
Write-off of exploration and evaluation assets	493,653	998,536
Management fees (note 12)	68,000	102,000
Office, telephone and printing	65,455	98,654
Professional fees (note 12)	166,381	223,275
Property investigation	5,496	23,272
Stock-based compensation (note 10)	548,094	213,846
Travel	1,148	24,467
Investor relations	2,527	-
Loss before other items	(1,475,792)	(1,826,570)
OTHER ITEMS		
Interest income	41	7,501
Gain on sale of equipment (note 6)	4,886	-
Gain on sale of investments (note 7)	-	158,098
	4,927	165,599
Comprehensive loss for the year	$ (1,470,865)	$ (1,660,971)
Comprehensive loss attributable to:		
Shareholders of Superior Mining International Corporation	$ (1,491,175)	$ (1,657,271)
Non-controlling interests	20,310	(3,700)
	$ (1,470,865)	$ (1,660,971)
Basic and diluted loss per common share	$ (0.03)	$ (0.04)
Weighted average common shares outstanding for basic loss per share	55,339,361	46,960,989

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

SUPERIOR MINING INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CASH FLOWS
(Expressed in Canadian dollars)

For the year ended July 31,	2012	2011
		(Note 18)
CASH FLOWS FROM OPERATING ACTIVITIES		
Loss for the year	$ (1,470,865)	$ (1,660,971)
Items not affecting cash:		
Foreign exchange	62	4,984
Amortization	651	-
Stock-based compensation	548,094	213,846
Write-off of exploration and evaluation assets	493,653	998,536
Gain on sale of investments	-	(158,098)
Gain on sale of equipment	(4,886)	-
Shares issued for consulting fees	-	6,000
Changes in non-cash working capital items:		
Decrease in receivables	5,485	11,086
Decrease (increase) in prepaid expenses	25	(3,218)
Increase in accounts payable and accrued liabilities	99,620	168,623
Net cash used in operating activities	(328,161)	(419,212)
CASH FLOWS FROM INVESTING ACTIVITIES		
Proceeds from sale of investments	-	752,737
Proceeds from sale of equipment	8,576	-
Exploration and evaluation expenditures	(330,821)	(603,069)
Repayment of investments	-	2,799
Net cash provided by (used in) investing activities	(322,245)	152,467
CASH FLOWS FROM FINANCING ACTIVITIES		
Amounts received for exercise of options	-	573,350
Issuance of shares for cash	583,500	396,000
Share issue costs	(18,078)	(13,498)
Loan repayment	-	(708,000)
Net cash provided by financing activities	565,422	247,852
Foreign exchange effect on cash	(62)	(4,984)
Change in cash for the year	(85,046)	(23,877)
Cash, beginning of year	107,660	131,537
Cash, end of year	$ 22,614	$ 107,660

Supplemental disclosure with respect to cash flows (note 11)

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

SUPERIOR MINING INTERNATIONAL CORPORATION
CONSOLIDATED STATEMENTS OF CHANGES IN EQUITY
(Expressed in Canadian Dollars)

	Capital Stock		Reserves						
	Number	**Amount**	**Options**	**Warrants**	**Total Reserves**	**Deficit**	**Total**	**Non-controlling Interest**	**Total Equity**
Balance as at August 1, 2010 (Note 18)	43,707,995	$ 16,154,437	$ 1,925,091	$ 95,831	$2,020,922	$ (16,449,708)	$ 1,725,651	$ (11,723)	$ 1,713,928
Issued for:									
Private placement	3,300,000	396,000	-	-	-	-	396,000	-	396,000
Options exercised	3,242,500	1,763,641	(1,194,527)	-	(1,194,527)	10,236	579,350	-	579,350
Share issuance costs	-	(13,498)	-	-	-	-	(13,498)	-	(13,498)
Options expired	-	-	(250,630)	-	(250,630)	250,630	-	-	-
Agent's warrants expired	-	10,926	-	(10,926)	(10,926)	-	-	-	-
Stock-based compensation	-	-	213,846	-	213,846	-	213,846	-	213,846
Loss for the year	-	-	-	-	-	(1,657,271)	(1,657,271)	(3,700)	(1,660,971)
Balance as at July 31, 2011 (Note 18)	50,250,495	$ 18,311,506	$ 693,780	$ 84,905	$ 778,685	$ (17,846,113)	$ 1,244,078	$ (15,423)	$ 1,228,655

	Number	**Amount**	**Options**	**Warrants**	**Total Reserves**	**Deficit**	**Total**	**Non-controlling Interest**	**Total Equity**
Balance as at August 1, 2011	50,250,495	$ 18,311,506	$ 693,780	$ 84,905	$ 778,685	$ (17,846,113)	$ 1,244,078	$ (15,423)	$ 1,228,655
Issued for:									
Private placement	5,835,000	583,500	-	-	-	-	583,500	-	583,500
Debt settlement	1,480,984	148,098	-	-	-	-	148,098	-	148,098
Share issuance costs – cash	-	(18,078)	-	-	-	-	(18,078)	-	(18,078)
Share issuance costs – warrants	-	(2,495)	-	2,495	2,495	-	-	-	-
Options forfeited	-	-	(295,073)	-	(295,073)	295,073	-	-	-
Warrants expired	-	-		(84,905)	(84,905)	84,905	-	-	-
Stock-based compensation	-	-	548,094	-	548,094	-	548,094	-	548,094
Loss for the year	-	-	-	-	-	(1,491,175)	(1,491,175)	20,310	(1,470,865)
Balance as at July 31, 2012	57,566,479	$ 19,022,531	$ 946,801	$ 2,495	$ 949,296	(18,957,310)	$ 1,014,517	$ 4,887	$ 1,019,404

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

1. NATURE AND CONTINUANCE OF OPERATIONS

Superior Mining International Corporation (the "Company") is a Canadian company incorporated in the Yukon Territory. The Company's head, registered and records office address is 1500 – 885 West Georgia Street, Vancouver, BC, Canada, V6C 3E8. The Company is primarily engaged in the acquisition, exploration and development of mineral properties.

The recoverability of the amounts comprising exploration and evaluation assets is dependent upon the confirmation of economically recoverable reserves, the ability of the Company to obtain necessary financing to successfully complete their exploration and development and upon future profitable production.

These consolidated financial statements are prepared on a going concern basis which assumes that the Company will be able to realize its assets and discharge its liabilities in the normal course of business for the foreseeable future. As at July 31, 2012, the Company had an accumulated deficit of $18,957,310 (July 31, 2011 - $17,846,113; August 1, 2010 - $16,449,708) a working capital deficiency of $264,004 (July 31, 2011 - $193,323; August 1, 2010 - $688,591) and has not generated revenues from operations. These circumstances lend substantial doubt as to the ability of the Company to meet its obligations as they come due, and accordingly, the appropriateness of the use of accounting principles applicable to a going concern.

In order to continue as a going concern and to meet its corporate objectives, which primarily consist of exploration work on its exploration and evaluation assets, the Company will require additional financing through debt or equity issuances or other available means. Although the Company has been successful in the past in obtaining financing, there is no assurance that it will be able to obtain adequate financing in the future or that such financing will be on terms advantageous to the Company.

These consolidated financial statements do not include adjustments that would be necessary should the Company be unable to continue as a going concern. These adjustments could be material.

2. BASIS OF PRESENTATION AND FIRST TIME ADOPTION OF IFRS

Statement of compliance

The Company previously prepared its financial statements in accordance with Canadian Generally Accepted Accounting Principles ("Canadian GAAP") as set in the Handbook of the Canadian Institute of Chartered Accountants ("CICA Handbook"). In 2010, the CICA Handbook was revised to incorporate IFRS ("International Financial Reporting Standards") and requires publicly accountable enterprises to apply such standards effective for years beginning on or after January 1, 2011. Accordingly, the Company has commenced reporting on this basis in these consolidated financial statements.

These are the Company's first annual consolidated financial statements prepared in accordance with IFRS. In the financial statements, the term "Canadian GAAP" refers to Canadian GAAP before the adoption of IFRS. These annual consolidated financial statements have been prepared in accordance with IFRS as issued by the International Accounting Standards Board ("IASB").

The Company's transition date to IFRS is August 1, 2010. The rules for first-time adoption of IFRS are set out in IFRS 1, "First-time adoption of International Financial Reporting Standards". In preparing the Company's first IFRS financial statements, these transition rules have been applied to the amounts previously reported in accordance with Canadian generally accepted accounting principles ("Canadian GAAP"). Historical results and balances have been presented under IFRS.

The disclosure in Note 18 provides IFRS information as at July 31, 2011 and August 1, 2010 and for the year ended July 31, 2011 that is material to the understanding of these consolidated financial statements.

2. BASIS OF PRESENTATION AND FIRST TIME ADOPTION OF IFRS (cont'd…)

Statement of compliance (cont'd…)

These consolidated financial statements were approved by the Board of Directors for issue on November 28, 2012.

3. SIGNIFICANT ACCOUNTING POLICIES

The accounting policies set out below have been applied in these consolidated financial statements and in preparing the opening IFRS statement of financial position at August 1, 2010.

Basis of consolidation

The consolidated financial statements have been prepared on a historical cost basis except for certain financial assets measured at fair value. All dollar amounts presented are in Canadian dollars unless otherwise specified.

These consolidated financial statements include the financial statements of the Company and the entities controlled by the Company. Control exists when the Company has the power, directly or indirectly, to govern the financial and operating policies of an entity so as to obtain benefits from its activities. The financial statements of subsidiaries are included in the consolidated financial statements from the date that control commences until the date that control ceases. All significant intercompany transactions and balances have been eliminated.

The financial statements include the financial statements of the parent and its subsidiaries listed in the following table:

Name of Subsidiary	Country of Incorporation	Proportion of Ownership Interest	Principal Activity
Superior Mining South Africa (Pty) Corporation	South Africa	100%	Mineral exploration
Owl Eye Trading 71 (Pty) Ltd.	South Africa	100%	Mineral exploration
Turquoise Moon Trading 403 Pty Ltd.	South Africa	87%	Mineral exploration
Middelvlei Gold & Investments (Pty) Ltd. ("MGI")	South Africa	50%	Mineral exploration
Westland Minerals Limited	New Zealand	100%	Mineral exploration
SUI (NZ) Limited	New Zealand	100%	Mineral exploration
Superior Mining Holding Pte. Ltd.	Singapore	100%	Holding company
Superior Mining (NZ) Management Limited.	New Zealand	100%	Mineral exploration

Significant accounting judgments

Significant accounting judgments that management has made in the process of applying accounting policies and that have the most significant effect on the amounts recognized in the financial statements include, but are not limited to, the following:

i) Going concern risk assessment (Note 1);

ii) Determination of functional currency (refer to further discussion in the section *Foreign currency translation*); and

iii) Recoverability of the carrying value of the Company's exploration and evaluation assets.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Critical accounting estimates

Key assumptions concerning the future and other key sources of estimation uncertainty that have a significant risk of resulting in a material adjustment to the carrying amount of assets and liabilities within the next financial year include, but are not limited to, the following:

i) *Share-based payments* – The fair value of share-based payments is determined using a Black-Scholes Option pricing model. Such option pricing models require the input of subjective assumptions including the expected price volatility, option life, dividend yield, risk-free rate and estimated forfeitures at the initial grant.

ii) *Deferred income taxes* - The Company is periodically required to estimate the tax basis of assets and liabilities. Where applicable tax laws and regulations are either unclear or subject to varying interpretations, it is possible that changes in these estimates could occur that materially affect the amounts of deferred income tax assets and liabilities recorded in the financial statements. Changes in deferred tax assets and liabilities generally have a direct impact on earnings in the period that the changes occur. Each period, the Company evaluates the likelihood of whether some portion or all of each deferred tax asset will not be realized. This evaluation is based on historic and future expected levels of taxable income, the pattern and timing of reversals of taxable temporary timing differences that give rise to deferred tax liabilities, and tax planning initiatives.

Foreign currency translation

The functional currency for each of the Company's subsidiaries is the currency in which funds from financing activities are generated. Transactions in foreign currencies are translated to the functional currency of the entity at the exchange rate in existence at the date of the transaction. Monetary assets and liabilities denominated in foreign currencies at the reporting date are retranslated at the period end date exchange rates.

The functional currency of Superior Mining International Corporation, the parent entity, is the Canadian dollar, which is also the presentation currency of our consolidated financial statements. The functional currency of the Company's foreign subsidiaries is also the Canadian dollar.

In individual companies, transactions in foreign currencies are initially recorded in the functional currency by applying exchange rates at the dates of the transactions.

Monetary assets and liabilities denominated in foreign currencies at the reporting date are re-translated to the functional currency at the closing rate (exchange rate at the reporting date).

Non-monetary items that are measured in terms of historical cost in a foreign currency are translated using the exchange rate at the date of the transaction. Non-monetary assets and liabilities denominated in foreign currencies that are measured at fair value are re-translated to the functional currency at the exchange rate at the date that the fair value was determined. Foreign currency differences arising on re-translation are recognized in the profit or loss.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Financial instruments

Financial assets:

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

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

Loans and receivables - These assets are non-derivative financial assets with fixed or determinable payments that are not quoted in an active market. They are carried at cost less any provision for impairment. Individually significant receivables are considered for impairment when they are past due or when other objective evidence is received that a specific counterparty will default.

Held-to-maturity investments - These assets are non-derivative financial assets with fixed or determinable payments and fixed maturities that the Company's management has the positive intention and ability to hold to maturity. These assets are measured at amortized cost using the effective interest method less any provision for impairment.

Available-for-sale - Non-derivative financial assets not included in the above categories are classified as available-for-sale. They are carried at fair value with changes in fair value recognized in other comprehensive income (loss). Where a decline in the fair value of an available-for-sale financial asset constitutes objective evidence of impairment, the amount of the loss is removed from accumulated other comprehensive income (loss) and recognized in profit or loss.

All financial assets except for those at fair value through profit or loss are subject to review for impairment at least at each reporting date. Financial assets are impaired when there is any objective evidence that a financial asset or a group of financial assets is impaired. Different criteria to determine impairment are applied for each category of financial assets, which are described above.

Financial liabilities:

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

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

Other financial liabilities- This category includes amounts due to related parties and accounts payables and accrued liabilities, all of which are recognized at amortized cost.

The Company has classified its cash and investment as *Fair value through profit or loss*. The Company's receivables are classified as *Loans and receivables*. The Company's accounts payable and accrued liabilities and loan payable are classified as *Other financial liabilities*.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Equipment

Equipment is carried at cost, less accumulated depreciation and accumulated impairment losses. Depreciation is recognized using the declining balance method at the following annual rates:

Vehicle	30%

Exploration and evaluation assets

Pre-exploration costs

Pre-exploration costs are expensed in the period in which they are incurred.

Exploration and evaluation expenditures

Once the legal right to explore a property has been acquired, all costs related to the acquisition, exploration and evaluation of mineral properties are capitalized by property. These direct expenditures include such costs as materials used, surveying costs, drilling costs, payments made to contractor and depreciation on plant and equipment during the exploration phase. Costs not directly attributable to exploration and evaluation activities, including general administrative overhead costs, are expensed in the period in which they occur.

The Company may occasionally enter into farm-out arrangements, whereby the Company will transfer part of a mineral interest, as consideration, for an agreement by the farmee to meet certain exploration and evaluation expenditures which would have otherwise been undertaken by the Company. The Company does not record any expenditures made by the farmee on its behalf. Any cash consideration received from the agreement is credited against the costs previously capitalized to the mineral interest given up by the Company, with any excess cash accounted for as a gain on disposal.

When a project is deemed to no longer have commercially viable prospects to the Company, exploration and evaluation expenditures in respect of that project are deemed to be impaired. As a result, those exploration and evaluation expenditure costs, in excess of estimated recoveries, are written off to the statement of comprehensive loss/income.

The Company assesses exploration and evaluation assets for impairment when facts and circumstances suggest that the carrying amount of an asset may exceed its recoverable amount.

Once the technical feasibility and commercial viability of extracting the mineral resource has been determined, the property is considered to be a mine under development and is classified as "mines under construction." Exploration and evaluation assets are tested for impairment before the assets are transferred to development properties.

As the Company currently has no operational income, any incidental revenues earned in connection with exploration activities are applied as a reduction to capitalized exploration costs.

Mineral exploration and evaluation expenditures are classified as intangible assets.

Joint interests

A portion of the Company's exploration and development activities are conducted jointly with others. These consolidated financial statements reflect only the Company's proportionate interest in such activities.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Impairment

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

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

Provision for environmental rehabilitation

A provision is recognized if, as a result of a past event, the Company has a present legal or constructive obligation that can be estimated reliably, and it is probable that an outflow of economic benefits will be required to settle the obligation. Provisions are determined by discounting the expected future cash flows at a pre-tax rate that reflects current market assessments of the time value of money and the risks specific to the liability. Provisions are not recognized for future operating losses. As at July 31, 2012, there was no provision for environmental rehabilitation.

Loss per share

The Company uses the treasury stock method to compute the dilutive effect of options, warrants and similar instruments. Under this method the dilutive effect on loss per share is recognized on the use of the proceeds that could be obtained upon exercise of options and warrants. It assumes that the proceeds would be used to purchase common shares at the average market price during the period. For the year ended July 31, 2012 and 2011, this calculation proved to be anti-dilutive. Basic loss per share is calculated using the weighted-average number of common shares outstanding during the year.

Stock-based compensation

The Company grants stock options to acquire common shares of the Company to directors, officers, employees and consultants. An individual is classified as an employee when the individual is an employee for legal or tax purposes, or provides services similar to those performed by an employee.

The fair value of stock options is measured on the date of grant, using the Black-Scholes option pricing model, and is recognized over the vesting period using the graded method. Consideration paid for the shares on the exercise of stock options is credited to capital stock. When vested options are forfeited or are not exercised at the expiry date the amount previously recognized in share-based compensation is transferred to accumulated losses (deficit). The Company estimates a forfeiture rate and adjusts the corresponding expense each period based on an updated forfeiture estimate.

In situations where equity instruments are issued to non-employees and some or all of the goods or services received by the entity as consideration cannot be specifically identified, they are measured at the fair value of the share-based payment. Otherwise, share-based payments are measured at the fair value of goods or services received.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

Share issue costs

Costs directly identifiable with the raising of capital are charged directly to capital stock. Costs related to shares not yet issued are recorded as deferred financing costs. These costs will be deferred until the issuance of the shares to which the costs relate, at which time the costs will be charged against the related capital stock or charged to operations if the shares are not issued.

Valuation of warrants

The Company has adopted the residual value method with respect to the valuation of warrants issued as part of a private placement unit. The residual value method allocates the net proceeds to the common shares up to their fair value, as determined by the current quoted trading price on the announcement date, and the balance, if any, to the attached warrants. The fair value attributed to the warrants, if any, is recorded in reserves.

Income taxes

Income tax on the statement of comprehensive loss for the periods presented comprises current and deferred tax. Income tax is recognized in the statement of comprehensive loss except to the extent that it relates to items recognized directly in equity, in which case it is recognized in equity. Current tax expense is the expected tax payable on the taxable income for the year, using tax rates enacted or substantively enacted at period end, adjusted for amendments to tax payable with regards to previous years.

Deferred tax is recorded using the statement of financial position liability method, providing for temporary differences, between the carrying amounts of assets and liabilities for financial reporting purposes and the amounts used for taxation purposes. The following temporary differences are not provided for: goodwill not deductible for tax purposes; the initial recognition of assets or liabilities that affect neither accounting or taxable loss; and differences relating to investments in subsidiaries to the extent that they will probably not reverse in the foreseeable future. The amount of deferred tax provided is based on the expected manner of realization or settlement of the carrying amount of assets and liabilities, using tax rates enacted or substantively enacted at the balance sheet date.

A deferred tax asset is recognized only to the extent that it is probable that future taxable profits will be available against which the asset can be utilized. To the extent that the Company does not consider it probable that a future tax asset will be recovered, it provides a valuation allowance against that excess.

Additional income taxes that arise from the distribution of dividends are recognized at the same time as the liability to pay the related dividend. Deferred tax assets and liabilities are offset when there is a legally enforceable right to set off current tax assets against current tax liabilities and when they relate to income taxes levied by the same taxation authority and the Company intends to settle its current tax assets and liabilities on a net basis.

New accounting pronouncements

Certain new accounting standards and interpretations have been published that are not mandatory for the July 31, 2012 reporting period. These standards and interpretations have not been adopted and are yet to be assessed by the Company:

- Amendments to IFRS 7, *Financial Instruments: Disclosures,* to require information about all recognized financial instruments that are set off in accordance with paragraph 42 of IAS 32 Financial Instruments: Presentation. This standard is effective for years beginning on or after January 1, 2013.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

New accounting pronouncements (cont'd…)

- New standard IFRS 9, *Financial Instruments*, classification and measurement is the first part of a new standard on classification and measurement of financial assets that will replace IAS 39, "Financial Instruments: Recognition and Measurement." IFRS 9 has two measurement categories: amortized cost and fair value. All equity instruments are measured at fair value. A debt instrument is at amortized cost only if the entity is holding it to collect contractual cash flows and the cash flows represent principal and interest. Otherwise it is at fair value through profit and loss. This standard is effective for years beginning on or after January 1, 2015.

- New standard IFRS 10, *Consolidated Financial Statements*, replaces the guidance on control and consolidation in IAS 27, *Consolidated and Separate Financial statements*, and SIC-12, *Consolidation – Special Purpose Entities*. IFRS 10 changes the definition of control under IFRS so that the same criteria are applied to all entities to determine control. This standard is effective for years beginning on or after January 1, 2013.

- New standard IFRS 11, *Joint arrangements*, requires a venture to classify its interest in a joint arrangement as a joint venture or joint operation. Joint ventures will be accounted for using the equity method of accounting whereas for joint operation, the venture will recognize its share of assets, liabilities, revenue and expenses of the joint operation. Under existing IFRS, entities have the choice to proportionally consolidate or equity account for interest in joint ventures. IFRS 11 supersedes IAS 31 – *Interest in Joint Ventures* and SIC 13 – *Jointly Controlled Entities – Non-monetary Contributions by Venturers*. This standard is effective for years beginning on or after January 1, 2013.

- New standard IFRS 12, *Disclosure of Interests in Other Entities*. This new standard provides the disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and consolidated structured entities. This standard is effective for years beginning on or after January 1, 2013.

- New standard IFRS 13, *Fair Value Measurement*. This standard defines fair value and sets out in a single IFRS a framework for measuring fair value and requires disclosures about fair value measurements. The standard does not determine when an asset, a liability or an entity's own equity instrument is measured at fair value. Rather, the measurement and disclosure requirements of IFRS 13 apply when another IFRS requires or permits the item to be measured at fair value (with limited exceptions). This standard is effective for years beginning on or after January 1, 2013.

- Amendments to IAS 12, *Income Taxes,* to provide a presumption that recovery of the carrying amount of an asset measured using the fair value model in IAS 40 *Investment Property* will, normally, be through sale. As a result of the amendments, SIC-21 Income Taxes — *Recovery of Revalued Non-Depreciable Asset* would no longer apply to investment properties carried at fair value. The amendments also incorporate into IAS 12 the remaining guidance previously contained in SIC-21, which is accordingly withdrawn. This standard is effective for years beginning on or after January 1, 2012.

- Reissued IAS 27, *Separate Financial Statements,* requires that when an entity prepares separate financial statements, investments in subsidiaries, associates, and jointly controlled entities are accounted for either at cost, or in accordance with IFRS 9 *Financial Instruments*. This standard is effective for years beginning on or after January 1, 2013.

- Reissued IAS 28, *Investment in Associates and Joint Ventures,* supersedes IAS 28 *Investments in Associates* and defines 'significant influence' and provides guidance on how the equity method of accounting is to be applied (including exemptions from applying the equity method in some cases). It also prescribes how investments in associates and joint ventures should be tested for impairment. This standard is effective for years beginning on or after January 1, 2013.

3. SIGNIFICANT ACCOUNTING POLICIES (cont'd...)

New accounting pronouncements (cont'd…)

- Amendments to IAS 1, *Presentation of Financial Statements,* to revise the way other comprehensive income ("OCI") is presented. The amendments require entities to group items presented in OCI based on whether they are potentially reclassifiable to profit or loss subsequently. i.e. those that might be reclassified and those that will not be reclassified. It also requires tax associated with items presented before tax to be shown separately for each of the two groups of OCI items (without changing the option to present items of OCI either before tax or net of tax). This standard is effective for years beginning on or after July 1, 2012.

4. RECEIVABLES

The Company's receivables arise from the following sources: Harmonized Sales Tax ("HST") receivable due from Canadian government taxation authorities, VAT receivable and income tax receivable from the South African government. These are broken down as follows:

	July 31, 2012	July 31, 2011	August 1, 2010
HST receivable	$ 5,162	$ 10,958	$ 14,704
VAT receivable	285	187	7,554
Income taxes receivable	3,817	3,604	3,577
	$ 9,264	$ 14,749	$ 25,835

5. EXPLORATION AND EVALUATION ASSETS

	Mangalisa, South Africa	Victory North, New Zealand	Ross South, New Zealand	Collingwood, New Zealand	Red Castle, Australia	Total
Balance, July 31, 2011	$ 1,147,809	$ 28,973	$ 70,155	$ 170,700	$ -	$ 1,417,637
Acquisition costs:						
Additions	7,890	-	-	-	-	7,890
Exploration expenditures:						
Geological and consulting	98,710	64,472	76,845	38,992	13,989	293,008
Office and miscellaneous	76	-	-	-	803	879
Travel	4,066	21,151	18,297	14,133	-	57,647
	102,852	85,623	95,142	53,125	14,792	351,534
Write-off	-	(114,596)	(155,232)	(223,825)	-	(493,653)
Balance, July 31, 2012	$ 1,258,551	$ -	$ 10,065	$ -	$ 14,792	$ 1,283,408

5. EXPLORATION AND EVALUATION ASSETS (cont'd…)

	Mangalisa, South Africa	Victory Gold, New Zealand	Victory North, New Zealand	Otama, New Zealand	Ross South, New Zealand	Collingwood, New Zealand	Kirwans, New Zealand	Total
Balance, August 1, 2010	$ 1,141,811	$ 572,642	$ 12,624	$ 57,654	$ 14,149	$ -	$ -	$ 1,798,880
Acquisition costs:								
Additions	-	-	-	-	-	111,380	-	111,380
Exploration expenditures:								
Drilling	-	10,541	-	-	4,743	7,556	7,556	30,396
Geological and consulting	5,764	89,034	15,110	178,334	44,635	37,018	22,743	392,638
Office and miscellaneous	234	2,556	1,239	651	3,018	1,267	-	8,965
Travel	-	6,885	-	39,269	3,610	13,479	8,811	72,054
Amortization	-	1,860	-	-	-	-	-	1,860
Total exploration expenditures	5,998	110,876	16,349	218,254	56,006	59,320	39,110	505,913
Write-off	-	(683,518)	-	(275,908)	-	-	(39,110)	(998,536)
Balance, July 31, 2011	$ 1,147,809	$ -	$ 28,973	$ -	$ 70,155	$ 170,700	$ -	$ 1,417,637

5. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Mangalisa, South Africa

During fiscal 2008, the Company was granted a lease, giving it the right to explore a property in the eastern part of the Free State Goldfield, near the village of Riebeekstad, South Africa.

In October 2009, the Company entered into an agreement with Minco Mineral Holdings (Pty) Limited ("Minco"), pursuant to which Minco had the option to acquire 90% of the Company's directly controlled shares in Turquoise Moon Trading 403 Pty. Ltd ("TMT") by spending USD$10,000,000 (CAD$9,971,000) on the development of TMT's Mangalisa project, of which USD$5,000,000 (CAD$4,985,500) had to be spent by April 2011. The Company holds a 74% interest in TMT directly and a further 13% interest indirectly. If Minco expended the full USD$10,000,000 (CAD$9,971,000), the Company's direct and indirect interest in TMT would have been reduced to 20.4% (7.4% directly and 13% indirectly). The Company issued 250,000 finders warrants with a fair value of $84,905 in connection with the agreement.

By the April, 2011 milestone date, Minco had failed to meet the minimum exploration expenditure requirement and they forfeited their right to acquire an interest in the Mangalisa property.

Redcastle, Australia

During the year ended July 31, 2012, the Company entered into a Heads of Agreement with Reinhold Resources Ltd. to earn-in a 51% interest in the Redcastle Project located in the Western Australia. The Company is committed to exploration expenditures of AUD$200,000 on the project before May 4, 2014.

Victory North, New Zealand

During the year ended July 31, 2010, the Company was granted an Exploration Permit on ground immediately adjacent to that of the Victory Gold project in New Zealand.

During the year ended July 31, 2012, the Company decided not to pursue further exploration on the property resulting in a write-off of $114,596.

Ross South, New Zealand

During fiscal 2009, the Company was granted an Exploration Permit for a property approximately 2 km. south of the Victory Gold project, on the South Island of New Zealand.

During the year ended July 31, 2012, the Company decided not to pursue further exploration and sold the property subsequent to the year-end, a write-off of $155,232 (Note 19) was recorded in the fiscal year 2012.

The Company retains a net smelter return ("NSR") royalty of 1-7% for a period of 3 years after commercial production. After the third anniversary, the NSR royalty becomes Nil.

Collingwood, New Zealand

During fiscal 2011, the Company was granted an Exploration Permit in Collingwood, New Zealand.

During the year ended July 31, 2012, the Company decided not to pursue further exploration on the property resulting in a write-off of $223,825.

5. EXPLORATION AND EVALUATION ASSETS (cont'd…)

Victory Gold, New Zealand

During fiscal 2008, the Company entered into an option agreement to acquire 100% ownership of a mineral permit for a property located near Ross Township, New Zealand through the purchase of all of the shares of Placer Gold Resources Limited ("Placer Gold").

During fiscal 2010, the Company amended the option. Under the terms of the amended option agreement (the "Agreement"), Placer Gold and its shareholders granted the Company a 24 month option to acquire a 100% interest in the permits comprising the Victory project by carrying out an exploration program, constructing a placer mining facility (the "Plant") on that property, and processing 10,000 cubic meters of material through the Plant. The Agreement is structured as an option to purchase all of the issued and outstanding shares in the capital of Placer Gold, a New Zealand company. During the year ended July 31, 2011, the Company terminated the agreement resulting in a write-off of $683,518.

Otama, New Zealand

In April 2010, the Company entered into an option agreement with Lodestar Resources Limited ("Lodestar") to purchase an 80% interest in the Otama property in northern Southland, New Zealand.

During the year ended July 31, 2011, the Company terminated the agreement resulting in a write-off of $275,908.

Kirwans, New Zealand

During the year ended July 31, 2011, the Company through a wholly owned subsidiary, applied for a Prospecting Permit; however, the Company decided to withdraw the permit application resulting in a write-off of $39,110.

6. EQUIPMENT

		Vehicle
Cost		
Balance, August 1, 2010 and July 31, 2011	$	14,887
Disposal		(14,887)
Balance, July 31, 2012	$	-
Accumulated depreciation		
Balance, August 1, 2010	$	8,686
Depreciation for the year		1,860
Balance, July 31, 2011		10,546
Depreciation for the year		651
Disposal		(11,197)
Balance, July 31, 2012	$	-
Carrying amounts		
As at August 1, 2010	$	6,201
As at July 31, 2011	$	4,341
As at July 31, 2012	$	-

During the year ended July 31, 2012, the Company sold a vehicle for proceeds of $8,576 resulting in a net gain of $4,886. The gain has been recognized in the profit and loss.

7. INVESTMENTS

	July 31, 2012	July 31, 2011	August 1, 2010
MAV II notes	$ -	$ -	$ 597,438

At August 1, 2010, investments consisted of Master Asset Vehicle II ("MAV II") notes received in exchange for Canadian third-party asset backed commercial paper that was held by the Company.

During the year ended July 31, 2011, the Company:

i) received repayments of investment of $2,799; and

ii) sold all of its holdings in MAV II notes for proceeds of $752,737. Consequently, the Company repaid the demand non-revolving bridge loan of $708,000 (note 9) to its bank and recognized a gain on sale of investments of $158,098.

8. ACCOUNTS PAYABLE AND ACCRUED LIABILITIES

Accounts payables and accrued liabilities for the Company are broken down as follows:

	July 31, 2012	July 31, 2011	August 1, 2010
Trade payables	$ 266,401	$ 271,276	$ 90,289
Accrued liabilities	45,000	60,000	60,000
Total	$ 311,401	$ 331,276	$ 150,289

All payables and accrued liabilities for the Company fall due within the next 12 months.

9. LOAN PAYABLE

	July 31, 2012	July 31, 2011	August 1, 2010
Non-revolving bridge loan	$ -	$ -	$ 708,000

At August 1, 2010, the demand non-revolving bridge loan bore interest at the HSBC Bank Prime Rate plus 1% per annum, repayable on demand by the bank. Interest was payable monthly. The loan was secured by the Company's investment in MAV II notes (note 7).

During the year ended July 31, 2011, the Company:

i) paid $18,908 in interest; and

ii) repaid the loan in full with proceeds from sale of the MAV II notes (note 7).

10. CAPITAL STOCK AND RESERVES

a) Authorized share capital:
Unlimited common voting shares without par value.

10. CAPITAL STOCK AND RESERVES (cont'd…)

b) Issued share capital:

During the year ended July 31, 2012, the Company:

1) completed a non-brokered private placement for $583,500 by issuing 5,835,000 units at a price of $0.10 per unit. Each unit consists of one common share and one share purchase warrant exercisable at $1.00 for a period of one year. In connection to the private placement, the Company:

   i) paid cash share issuance costs of $18,078; and

   ii) issued 54,800 finder's warrants exercisable at $0.10 with a fair value of $2,495 using the Black-Scholes option pricing model assuming an expected life of 1 year, a risk-free interest rate of 0.91% and an expected volatility of 89.83%.

2) Issued 719,384 common shares at $0.10 to reimburse a firm in which a director of the Company is a partner for $71,938.

3) Issued 761,600 common shares at $0.10 to reimburse a company controlled by a director of the Company for $76,160 of management services.

During the year ended July 31, 2011, the Company:

i) completed a non-brokered private placement for $396,000 by issuing 3,300,000 common shares at a price of $0.12 per. The Company paid $13,498 in cash in connection with the private placement.

ii) issued 3,242,500 common shares for stock options exercised for proceeds of $579,350.

c) Stock options:

The Company has a fixed stock option plan whereby a maximum of 20% of the issued common shares are reserved for issuance under the plan (being an aggregate of 10,050,099 common shares). The options can be granted for a maximum term of five years and pricing and vesting are determined by the board of directors.

Stock option transactions and the number of stock options outstanding are summarized as follows:

	Number of Options	Weighted Average Exercise Price
Balance, August 1, 2010	6,635,000	$ 0.21
Cancelled	(520,000)	(0.27)
Granted	2,090,000	0.22
Expired	(455,000)	(0.25)
Exercised	(3,242,500)	(0.18)
Balance, July 31, 2011	4,507,500	0.23
Granted	5,250,000	0.12
Forfeited*	(2,770,000)	(0.15)
Balance, July 31, 2012	6,987,500	$ 0.18
Number of options currently exercisable	4,982,500	$ 0.19
Weighted average contractual life remaining in years	3	

*Forfeited upon the resignation of directors and employees

10. CAPITAL STOCK AND RESERVES (cont'd…)

c) Stock options: (cont'd....)

During the year ended July 31, 2012, the Company:

i) granted 5,250,000 stock options with a fair value of $530,330 estimated using the Black-Scholes option pricing model. The options have various vesting dates. The weighted average fair value per option granted during the year was $0.10; and

ii) recorded a stock-based compensation expense of $548,094 for options vested.

During the year ended July 31, 2011, the Company:

i) granted 2,090,000 stock options with a fair value of $392,008 estimated using the Black-Scholes option pricing model. The options have various vesting dates. The weighted average fair value per option granted during the year was $0.19.

ii) recorded stock-based compensation expenses of $213,846 for options vested; and

iii) recorded a transfer of the fair value of $1,184,291 to share capital for options exercised. The weighted average trading price at date of exercise was $0.16.

The following weighted average assumptions were used for the Black-Scholes option pricing model:

	July 31, 2012	July 31, 2011
Risk-free interest rate	2.76%	2.76%
Expected life of options	4.25 years	4.11 years
Annualized volatility	135%	135%
Dividend rate	-	-

d) Warrants:

Warrant transactions and the number of warrants outstanding are summarized as follows:

	Number of Warrants	Weighted Average Exercise Price
Balance, August 1, 2010	338,320	$ 0.40
Expired	(88,320)	(0.25)
Balance, July 31, 2011	250,000	0.45
Granted	5,889,800	0.99
Expired	(250,000)	(0.45)
Balance, July 31, 2012	5,889,800	$ 0.99

10. CAPITAL STOCK AND RESERVES (cont'd…)

d) Warrants (cont'd....)

As at July 31, 2012, the following stock options and warrants were outstanding:

	Number of Stock options /Warrants	Exercise Price	Expiry Date
Stock options	1,450,000	$ 0.27	August 24, 2012
	100,000	0.05	May 28, 2014
	200,000	0.12	September 24, 2014
	230,000	0.215	April 7, 2015
	300,000	0.185	June 25, 2015
	1,527,500	0.22	March 4, 2016
	3,180,000	0.12	September 29, 2016
	6,987,500		
Warrants			
	54,800	$ 0.10	November 18, 2012
	5,835,000	1.00	November 18, 2012
	5,889,800		

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS

	July 31, 2012	July 31, 2011	August 1, 2010
Cash paid during the year for interest	$ -	$ 18,908	$ 23,148
Cash paid during the year for income taxes	$ -	$ -	$ -

During the year ended July 31, 2012, the Company had the following significant non-cash investing and financing activities:

a) included in accounts payable $61,970 (2011 - $33,367) of exploration and evaluation expenditures; and

b) amortization allocated to exploration and evaluation assets of $Nil (2011 - $1,860); and

c) fair value of options exercised of $Nil (2011 - $1,184,291); and

d) Shares issued for debt settlement $148,098 (2011 - $Nil); and

e) Warrants expired and forfeited $84,905 (2011 – $Nil); and

f) Share issuance cost paid by warrants $2,495 (2011 – $Nil); and

g) Options forfeited $295,073 (2011 - $250,630); and

11. SUPPLEMENTAL DISCLOSURE WITH RESPECT TO CASH FLOWS (cont'd…)

h) Options exercised applied against accounts payable $Nil (2011 - $6,000).

12. RELATED PARTY TRANSACTIONS

Amounts paid to related parties are as follows:

	2012	2011
Key Management:		
Management and administration fees paid to a company owned by a director	$ 71,000	$ 102,000
Capitalized geological fees paid to a company owned by the CEO	144,000	-
Consulting fees paid to a director of a subsidiary of the Company	53,468	68,462
Stock-based compensation (i)	355,415	162,868
Professional fees paid to a firm in which the CFO is a partner (ii)	83,844	63,750
	$ 707,727	$ 397,080
Related Parties:		
Stock-based compensation (iii)	$ 160,736	$ 50,755

(i) Stock-based compensation is the fair value of options granted and vested to key management personnel.

(ii) The CFO joined the Company in this role during 2012. In 2011, the CFO was a director of the Company.

(iii)Stock-based compensation is the fair value of options granted and vested to related parties.

The transactions with related parties were in the normal course of operations and were measured at the exchange value, which represented the amount of consideration established and agreed to by the parties.

The amounts due to the related parties included in accounts payables and accrued liabilities are as follows:

	July 31, 2012	July 31, 2011	August 1, 2010
Due to a firm in which a director has an interest	$ 88,416	$ 66,256	$ 33,072
Due to a company owned by a director	11,000	38,080	-
Due to a company owned by the Chief Executive Officer	60,803	-	-
	$ 160,219	$ 104,336	$ 33,072

During the year ended July 31, 2012 the Company issued 719,384 and 761,600 common shares at $0.10 to reimburse a firm in which a director of the Company is a partner and a company controlled by a director of the Company for $71,938 of accounting services and $76,160 of management services respectively.

13. FINANCIAL INSTRUMENTS AND RISK

The Company's financial instruments consist of cash, receivables, investments, loan payable, accounts payable and accrued liabilities. Unless otherwise noted, it is management's opinion that the Company is not exposed to significant interest or credit risks arising from these financial instruments. The fair value of these financial instruments approximates their carrying value, unless otherwise noted.

13. FINANCIAL INSTRUMENTS AND RISK (cont'd…)

Concentration of credit risk

Financial instruments that potentially subject the Company to a significant concentration of credit risk due to the potential for counterparties to default on their contractual obligations consist primarily of receivables. The maximum potential loss on these financial instruments is equal to the carrying amounts of these items. The Company limits its exposure to credit loss by dealing with counterparties it believes to be creditworthy.

Fair value

The Company estimates the fair value of its financial instruments based on current interest rates, market value and pricing of financial instruments with comparable terms. Unless otherwise indicated, the carrying value of these financial instruments approximates their fair market value because of the near maturity of those instruments.

Financial statements measured at fair value on the statements of financial position are summarized in levels of fair value hierarchy as either "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.

Financial instruments measured at fair value on the statements of financial position are summarized in levels of fair value hierarchy as follows:

	July 31, 2012		
	Level 1	Level 2	Level 3
Assets			
Cash	$ 22,614	$ -	$ -

	July 31, 2011		
	Level 1	Level 2	Level 3
Assets			
Cash	$ 107,660	$ -	$ -

	August 1, 2010		
	Level 1	Level 2	Level 3
Assets			
Cash	$ 131,537	$ -	$ -
Investment	$ -	$ -	$ 597,438

The Company's risk exposures and the impact on the Company's financial instruments are summarized below:

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 July 31, 2012, the Company had current assets of $47,397 (July 31, 2011 - $137,953; August 1, 2010 - $169,698) to settle current liabilities of $311,401 (July 31, 2011 - $331,276; August 1, 2010 - $858,289). The Company is planning additional financings in the near term to raise working capital to finance its ongoing operations. All of the Company's financial liabilities are classified as current and mature within the next fiscal period.

13. FINANCIAL INSTRUMENTS AND RISK (cont'd…)

Market risk

Market risk is the risk of loss that may arise from changes in market factors such as interest rates, foreign exchange rates, and commodity and equity prices.

(a) Interest rate risk

The Company is exposed to interest rate risk to the extent that the cash maintained at the financial institutions is subject to floating rate of interest. The interest rate risks on cash and on the Company's obligations are not considered significant.

(b) Foreign currency risk

The Company has monetary assets and liabilities denominated in foreign currencies and non-monetary assets represented by mineral exploration interests in New Zealand (NZ$) and Australia (AUD$). The Company could accordingly be at risk for foreign currency fluctuations.

As at July 31, 2012, the Company also had cash, receivables and accounts payable in ZAR$, SGD$, AUD$ and NZD$. The amounts are minimal and any risk due to foreign currency fluctuations is not significant.

(c) 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. The Company closely monitors commodity prices, individual equity movements, and the stock market to determine the appropriate course of action to be taken by the Company.

14. JOINT VENTURE OPERATIONS

The financial statements include the Company's 50% interest in MGI, as follows:

	July 31, 2012	July 31, 2011	August 1, 2010
Cash	$ 32	$ 1,622	$ 1,722
Non-cash working deficiency	(20,497)	(24,825)	(24,636)
Loss for the year	$ (2,120)	$ (1,296)	$ -
Cash used in operating activities	$ (83)	$ (109)	$ -

15. SEGMENTED INFORMATION

The Company primarily operates in one reportable operating segment, being the acquisition and exploration of exploration and evaluation assets. Geographic information is as follows:

	July 31, 2012	July 31, 2011	August 1, 2010
Exploration and evaluation assets			
South Africa	$ 1,258,551	$ 1,147,809	$1,141,811
New Zealand	10,065	269,828	657,069
Australia	14,792	-	-
Equipment – New Zealand	-	4,341	6,201

16. CAPITAL MANAGEMENT

The Company's objective when managing capital is to safeguard the entity's ability to continue as a going concern.

In the management of capital, the Company monitors its adjusted capital which comprises all components of equity (ie. capital stock, reserves and deficit).

The Company sets the amount of capital in proportion to risk. The Company manages the capital structure and makes adjustments to it in the 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 common shares through private placements. The Company is not exposed to any externally imposed capital requirements. The Company's policy remains unchanged from the prior year.

17. INCOME TAXES

	2012	2011
Loss before taxes for the year	$ (1,470,865)	$ (1,660,971)
Canadian federal and provincial income tax rates	25.63%	27.33%
Expected income tax recovery based on the above rates	$ (376,983)	$ (453,943)
Impact of change in tax rates	2,319	35,969
Impact of different foreign statutory tax rates	(183,235)	(390)
Items not deductible for tax purposes	139,855	16,745
Tax benefit not recognized	418,044	401,619
Deferred income tax recovery	$ -	$ -

The significant components of the Company's deferred income tax assets and liabilities, using a Canadian basic statutory rate of 25% and South African statutory tax rate of 28% are as follows:

	2012	2011
Non-capital loss carryforwards	$ 1,501,000	$ 1,248,000
Share issuance costs	15,000	29,000
Cumulative exploration and development expenses	1,156,000	1,287,000
Capital loss carryforwards	765,000	555,000
Miscellaneous	-	3,000
	3,437,000	3,122,000
Unrecognized deferred tax assets	(3,437,000)	(3,122,000)
Net deferred tax assets	$ -	$ -

17. INCOME TAXES (cont'd…)

The Company has available for deduction against future taxable income non-capital losses for Canadian income tax purposes of approximately $5,668,523. These losses, if not utilized, will expire as follows:

2032	425,821
2031	1,107,904
2030	814,899
2029	381,600
2028	655,258
2027	719,457
2026	685,396
2025	508,286
2014	369,902
	5,668,523

Future tax benefits, which may arise as a result of these losses, have not been recognized in these financial statements as it is not probable that the Company will generate future taxable income against which to utilize the temporary differences.

18. FIRST TIME ADOPTION OF IFRS

As stated in Note 2, these are the Company's first annual consolidated financial statements prepared in accordance with IFRS. The accounting policies in Note 3 have been applied in preparing the consolidated financial statements for the years ended July 31, 2012 and 2011, and the opening IFRS statement of financial position on August 1, 2010, the "Transition Date".

In preparing the opening IFRS statement of financial position and the financial statements for the year ended July 31, 2011, the Company has adjusted amounts reported previously in financial statements that were prepared in accordance with Canadian GAAP. An explanation of how the transition from Canadian GAAP to IFRS has affected the Company's financial position, financial performance and cash flows is set out in the following tables. The guidance for the first time adoption of IFRS is set out in IFRS 1. IFRS 1 provides for certain mandatory exceptions and optional exemptions for first time adopters of IFRS. The Company elected to take the following IFRS 1 optional exemptions:

a) to apply the requirements of IFRS 3, Business Combinations, prospectively from the Transition Date;

b) to apply the requirements of IFRS 2, Share-based payment, only to equity instruments granted after November 7, 2002 which had not vested as of the Transition Date; and

IFRS requires each tranche of a share-based award with different vesting dates to be considered a separate grant for purpose of fair value calculation, and the resulting fair value is amortized over the vesting period of the respective tranches. Furthermore, forfeiture estimates are recognized in the period they are estimated.

Under Canadian GAAP, the fair value of share-based awards with graded vesting was calculated as one single grant and the resulting fair value was recognized on a straight-line basis over the longest vesting period. Forfeitures of awards were only recognized in the period the forfeiture occurred.

As a result, the Company increased stock based compensation expense by $58,498 for the year ended July 31, 2011.

18. FIRST TIME ADOPTION OF IFRS (cont'd…)

c) Reclassification of share-based reserve

Where a grant of options is cancelled and 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 payment exceeds the fair value of the equity instrument granted, measured at the repurchase date. Any such excess is recognized as an expense.

The Company reclassified from equity reserves of $488,703 and $275,409 for July 31, 2011 and August 1, 2010 respectively to deficit/share capital for options/warrants expired/forfeited.

Additionally, in accordance with IFRS 1, an entity's estimates under IFRS at the date of IFRS must be consistent with estimates made for the same date under previous Canadian GAAP, unless there is objective evidence that those estimates were in error. The Company's IFRS estimates as of August 1, 2010 are consistent with its Canadian GAAP estimates for the same date.

Reconciliation between Canadian GAAP and IFRS statements of financial position:

	As at August 1, 2010			As at July 31, 2011		
	Canadian GAAP	Effect of transition to IFRS	IFRS	Canadian GAAP	Effect of transition to IFRS	IFRS
ASSETS						
Current						
Cash	$ 131,537	$ -	$ 131,537	$107,660	$ -	$ 107,660
Receivables	25,835	-	25,835	14,749	-	14,749
Prepaid expenses	12,326	-	12,326	15,544	-	15,544
Total current assets	169,698	-	169,698	137,953	-	137,953
Non-current assets						
Exploration and evaluation assets	1,798,880	-	1,798,880	1,417,637	-	1,417,637
Equipment	6,201	-	6,201	4,341	-	4,341
Investments	597,438	-	597,438	-	-	-
Total non-current assets	2,402,519	-	2,402,519	1,421,978	-	1,421,978
Total assets	$2,572,217	$ -	$ 2,572,217	$1,559,931	$ -	$ 1,559,931
LIABILITIES AND EQUITY						
Current liabilities						
Accounts payable and accrued liabilities	$ 150,289	$ -	$ 150,289	$ 331,276	$ -	$ 331,276
Loan payable	708,000	-	708,000	-	-	-
Total current liabilities	858,289	-	858,289	331,276	-	331,276
Equity						
Capital stock	16,114,121	40,316	16,154,437	18,260,264	51,242	18,311,506
Reserves	2,296,331	(275,409)	2,020,922	1,267,388	(488,703)	778,685
Deficit	(16,684,801)	235,093	(16,449,708)	(18,283,574)	437,461	(17,846,113)
Capital and reserve attributable to Shareholders of Superior Mining International Corporation	1,725,651	-	1,725,651	1,244,078	-	1,244,078
Non-controlling interest	(11,723)	-	(11,723)	(15,423)	-	(15,423)
Total equity	1,713,928	-	1,713,928	1,228,655	-	1,228,655
Total liabilities and equity	$2,572,217	$ -	$2,572,217	$1,559,931	$ -	$ 1,559,931

18. FIRST TIME ADOPTION OF IFRS (cont'd…)

Reconciliation between Canadian GAAP and IFRS statements of comprehensive loss:

	Year ended July 31, 2011		
	Canadian GAAP	Effect of transition to IFRS	IFRS
EXPENSES			
Bank charges and interest	$ 19,930	$ -	$ 19,930
Consulting	98,977	-	98,977
Filing and transfer agent fees	18,629	-	18,629
Foreign exchange loss	4,984	-	4,984
Management fees	102,000	-	102,000
Office, telephone and printing	98,654	-	98,654
Professional fees	223,275	-	223,275
Property investigations	23,272	-	23,272
Stock-based compensation	155,348	58,498	213,846
Travel	24,467	-	24,467
Write-off of exploration and evaluation assets	998,536	-	998,536
	(1,768,072)	(58,498)	(1,826,570)
OTHER ITEMS			
Interest income	7,501	-	7,501
Gain on sale of investments	158,098	-	158,098
	165,599	-	165,599
Comprehensive loss for the year	$ (1,602,473)	$ (58,498)	$ (1,660,971)
Comprehensive loss attributable to:			
Shareholders of Superior Mining International Corporation	$ (1,598,773)	$ (58,498)	$ (1,657,271)
Non-controlling interest	(3,700)	-	(3,700)
Loss and comprehensive loss for the year	$ (1,602,473)	$ (58,498)	$ (1,660,971)

There are no significant differences between IFRS and Canadian GAAP in connection with the Company's statements of cash flows for the year ended July 31, 2011.

19. SUBSEQUENT EVENT

Subsequent to the year end, the Company:

i) sold its Ross South Property in New Zealand for AUD $10,000 (received subsequent to the year end) plus a retained royalty interest.

ii) received $200,000 in connection to its unsecured convertible notes private placement. The notes may be converted at anytime into common shares of the Company at $0.10 per share. The principal amount and all accrued interest at 12% per annum will be payable a year from the closing date. Each $100 note will also include 1,000 share purchase warrants exercisable at $0.10 for a period of 1 year from the closing date. The financing is subject to the acceptance of the TSX Venture Exchange.