

Condensed consolidated interim financial statements of

Cantex Mine Development Corp.

For the three months ended October 31, 2012

(Unaudited – Prepared by Management)

Cantex Mine Development Corp.

October 31, 2012

Table of contents

Condensed consolidated interim statements of financial position	1
Condensed consolidated interim statements of comprehensive loss	2
Condensed consolidated interim statements of changes in equity	3
Condensed consolidated interim statements of cash flows	4
Notes to the condensed consolidated interim financial statements	5-16

UNAUDITED INTERIM FINANCIAL STATEMENTS

In accordance with National Instrument 51-102 released by the Canadian Securities Administrators, the Company discloses that its auditors have not reviewed the condensed consolidated interim financial statements for the three months ended October 31, 2012.

Cantex Mine Development Corp.

Condensed consolidated interim statements of financial position as at October 31 and July 31, 2012

(Unaudited - Prepared by Management)

(Stated in Canadian dollars)

	Note	October 31, 2012	July 31, 2012
		\$	\$
Assets			
Current assets			
Cash		1,079,636	2,086,403
Trade and other receivables	3	81,609	181,133
Prepaid expenses		9,836	1,788
		1,171,081	2,269,324
Non-Current assets			
Reclamation bonds	4(b)	20,213	20,274
Property and equipment	5	12,180	14,538
		1,203,474	2,304,136
Liabilities			
Current liabilities			
Trade and other payables		172,050	181,742
Due to related parties	6	4,532,244	4,531,056
		4,704,294	4,712,798
Shareholders' deficiency			
Share capital	8	44,619,721	44,619,721
Reserves	8	1,424,988	1,424,988
Deficit		(49,545,529)	(48,453,371)
		(3,500,820)	(2,408,662)
		1,203,474	2,304,136

Nature and continuance of operations (Note 1)

Commitments (Note 7)

Contingencies (Note 12)

Approved by the Board of Directors:

"Vernon Frolick"

Vernon Frolick

"Chad Ulansky"

Chad Ulansky

Cantex Mine Development Corp.

Condensed consolidated interim statements of net loss and comprehensive loss Three month periods ended October 31, 2012 and 2011

(Unaudited - Prepared by Management)

(Stated in Canadian dollars)

	Note	October 31,	
		2012	2011
		\$	\$
Expenses			
Exploration	4	1,078,813	424,665
General and administrative		29,816	33,860
Depreciation		2,358	2,358
		1,110,987	460,883
Other items			
Administration fees income		15,138	19,954
Interest income		4,753	5,372
Foreign exchange gain		(1,062)	7,503
		18,829	32,829
Net loss and comprehensive loss		(1,092,158)	(428,054)
Loss per common share, basic and diluted		(0.00)	(0.00)
Weighted average number of common shares outstanding, basic and diluted		406,433,022	371,213,022

Cantex Mine Development Corp.

Condensed consolidated interim statements of changes in equity

(Unaudited - Prepared by Management)

(Stated in Canadian dollars)

	Note	Number of common Shares	Share capital	Share-based compensation reserve	Deficit	Total
			\$	\$	\$	\$
Balance, July 31, 2012		406,433,022	44,619,721	1,424,988	(48,453,371)	(2,408,662)
Net loss and comprehensive loss for the period		-	-	-	(1,092,158)	(1,092,158)
Balance, October 31, 2012		406,433,022	44,619,721	1,424,988	(49,545,529)	(3,500,820)
Balance, July 31, 2011		371,213,022	42,876,218	1,433,572	(46,285,631)	(1,975,841)
Net loss and comprehensive loss for the period		-	-	-	(428,054)	(428,054)
Balance, October 31, 2011		371,213,022	42,876,218	1,433,572	(46,713,685)	(2,403,895)

Cantex Mine Development Corp.

Condensed consolidated interim statements of cash flows

Three month periods ended October 31, 2012 and 2011

(Unaudited - Prepared by Management)

(Stated in Canadian dollars)

	<u>October 31,</u>	
<u>Note</u>	<u>2012</u>	<u>2011</u>
	\$	\$
Operating activities		
Net loss and comprehensive loss	(1,092,158)	(428,054)
Items not involving cash		
Depreciation	2,358	2,358
Interest income	(4,753)	(5,372)
Unrealized foreign exchange gain	61	(1,129)
Changes in operating assets and liabilities		
Trade and other receivables	99,524	(6,736)
Prepaid expenses	(8,048)	22,426
Trade and other payables	(8,504)	(442,044)
	(1,011,520)	(858,551)
Investing activities		
Interest received	4,753	5,372
	4,753	5,372
Effect of exchange rates on cash	(3,884)	(5,094)
Increase in cash during the period	(1,006,767)	(853,179)
Cash, beginning of period	2,086,403	2,002,456
Cash, end of period	1,079,636	1,149,277

Cantex Mine Development Corp.

Notes to the condensed consolidated interim financial statements

October 31, 2012

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

1. Nature and continuance of operations

Cantex Mine Development Corp. (“Cantex” or the “Company”) is incorporated under the laws of the Province of Alberta and its principal business activity is the exploration and development of its mineral properties, either directly or indirectly through joint exploration and development ventures and other arrangements. The Company’s common shares are listed on the TSX Venture Exchange under the symbol “CD”.

The head office, principal address and registered and records office of the Company are located at 203-1634 Harvey Avenue, Kelowna, BC V1Y 6G2.

The Company has not yet determined whether any of its mineral properties contain economically recoverable mineral reserves. Although the Company has taken steps to verify title to the mineral properties in which it, through its subsidiary, has an interest, in accordance with industry standards for the stage of exploration of such properties, those procedures do not guarantee the Company’s title. Property title may be subject to unregistered prior agreements and non-compliance with regulatory requirements.

These condensed consolidated interim financial statements have been prepared by management on a going concern basis, which assumes the Company will continue in operations for the foreseeable future and be able to realize its assets and discharge its liabilities in the normal course of business. The ability of the Company to continue operations is dependent upon the existence of economically recoverable reserves, successful development of the Company’s mineral properties, receive continued financial support, complete equity financings, and generate profitable operations in the future. It is not possible to predict whether economically recoverable reserves exist, the Company’s financing efforts will be successful, or the Company will attain profitable level of operations.

As at October 31, 2012, the Company has incurred cumulative losses of \$48,453,371 (July 31, 2012 - \$48,453,371) and has a working capital deficiency of \$2,443,474 (July 31, 2012 - \$2,443,474). These conditions may raise significant doubt regarding the Company’s ability to continue as a going concern. Additional financing will be required for the Company to continue operations. Should the Company be unable to realized its assets and discharge its liabilities in the normal course of business, adjustments would be necessary in the carrying values of assets and liabilities, the reported net loss and the balance sheet classifications used.

Cantex Mine Development Corp.

Notes to the condensed consolidated interim financial statements

October 31, 2012

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

2. Basis of presentation

(a) *Statement of compliance*

These condensed consolidated interim financial statements are unaudited and have been prepared in accordance with IAS 34, Interim Financial Reporting (“IAS 34”) using accounting policies consistent with the International Financial Reporting Standards (“IFRS”), as issued by the International Accounting Standards Board (“IASB”) and Interpretations of the International Financial Reporting Interpretations Committee (“IFRIC”). The significant accounting policies followed are the same as those set out in Note 3 to the audited consolidated financial statements for the year ended July 31, 2012.

These condensed consolidated interim financial statements should be read in conjunction with the Company’s 2012 annual consolidated financial statements under IFRS.

These interim financial statements do not include all the necessary annual disclosure in accordance with IFRS.

These condensed consolidated interim financial statements were approved for issue by the Audit Committee on December 14, 2012.

(b) *Basis of presentation*

These consolidated financial statements include the accounts of the Company and its wholly-owned subsidiary, Cantex Gold Corp.

Name of Subsidiary	Country of Incorporation	Proportion of Ownership Interest	
		October 31, 2012	July 31, 2012
Cantex Gold Corp.	USA	100%	100%

(c) *Adoption of new and revised standards and interpretations*

These consolidated financial statements have been prepared in accordance with IFRS effective as of October 31, 2012.

Cantex Mine Development Corp.

Notes to the condensed consolidated interim financial statements

October 31, 2012

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

2. Basis of presentation (continued)

(c) *Adoption of new and revised standards and interpretations (continued)*

At the date of authorization of these financial statements, the IASB and IFRIC has issued the following new and revised Standards and Interpretations which are not yet effective for the relevant reporting periods:

- (i) The following Standards are effective for annual periods beginning on or after January 1, 2013. The Company is assessing the impact of these standards.

IFRS 10 Consolidated Financial Statements will replace existing guidance on consolidation in IAS 27 Consolidated and Separate Financial Statements, and SIC 12 Consolidation – Special Purpose Entities.

IFRS 11 Joint Arrangements will replace IAS 31 Interests in Joint Ventures, and SIC 13 Jointly Controlled Entities – Non-monetary Contributions by Venturers.

IFRS 12 Disclosure of Interests in Other Entities is the new Standard for disclosure requirements for all forms of interests in other entities, including subsidiaries, joint arrangements, associates and unconsolidated structured entities.

IFRS 13 Fair Value Measurement was issued to remedy the inconsistencies in the requirements for measuring fair value and for disclosing information about fair value measurement in various current IFRSs.

IAS 27 Separate Financial Statements has been updated to require an entity presenting separate financial statements to account for those investments at cost or in accordance with IFRS 9 Financial Instruments.

IAS 28 Investments in Associates and Joint Ventures has been revised and it is to be applied by all entities that are investors with joint control of, or significant influence over, an investee.

- (ii) The following Standard is effective for annual periods beginning on or after January 1, 2015. The Company is assessing the impact of this standard.

IFRS 9 Financial Instruments (“IFRS 9”) was issued to replace IAS 39, Financial Instruments: Recognition and Measurement. IFRS 9 addresses the classification and measurement of financial assets. IFRS 9 was subsequently reissued in October 2010, incorporating new requirements on accounting for financial liabilities.

3. Trade and other receivables

	October 31, 2012	July 31, 2012
	\$	\$
HST receivables	81,609	44,140
Third party receivables	-	136,993
	81,609	181,133

Third party receivables consist mainly of mineral property recoveries due from partners.

Cantex Mine Development Corp.

Notes to the condensed consolidated interim financial statements

October 31, 2012

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

4. Mineral property interests

Title to mining properties involves certain inherent risks due to the difficulties of determining the validity of certain claims as well as the potential for problems arising from the frequently ambiguous conveyancing history characteristic of many mining properties. The Company has diligently investigated rights of ownership of all of the mineral concessions in which it has an interest and, to the best of its knowledge, all agreements relating to such ownership rights are in good standing. However, this should not be construed as a guarantee of title. The concessions may be subject to prior claims, agreements or transfers and rights of ownership may be affected by undetected defects.

	Yemen (a)	Nevada (b)	Yukon (c)	Total
	\$	\$	\$	\$
Cumulative expenditures to July 31, 2011	23,104,881	1,994,244	1,086,588	26,185,713
Additions:				
Consulting and engineering	367,760	1,124	997,985	1,366,869
Licenses and permits	15,700	39,232	11,811	66,743
Living costs	90,245	-	-	90,245
Travel, field and other	481,534	1,113	291,448	774,095
Wages	601,433	-	48,096	649,529
	1,556,672	41,469	1,349,340	2,947,481
Cost recoveries	(876,139)	-	-	(876,139)
Net expenditures during year	680,533	41,469	1,349,340	2,071,342
Cumulative expenditures to July 31, 2012	23,785,414	2,035,713	2,435,928	28,257,055
Additions:				
Consulting and engineering	39,492	1,361	120,032	160,885
Licenses and permits	-	21,435	34,353	55,788
Living costs	10,803	-	-	10,803
Travel, field and other	74,593	236	747,902	822,731
Wages	105,148	-	125,291	230,439
	230,036	23,032	1,027,578	1,280,646
Cost recoveries	(201,833)	-	-	(201,833)
Net expenditures during period	28,203	23,032	1,027,578	1,078,813
Cumulative expenditures to October 31, 2012	23,813,617	2,058,745	3,463,506	29,335,868

Cantex Mine Development Corp.

Notes to the condensed consolidated interim financial statements

October 31, 2012

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

4. Mineral property interests (continued)

(a) *Yemen program*

During 1996, the Company was granted a 52,000 square kilometer (“km²”) prospecting permit in the Republic of Yemen. With continued exploration, the Company was able to focus its efforts on progressively smaller areas that demonstrated the potential for economic mineralization. The Company has held an exploration license granting exclusive exploration rights and the right to obtain an exploration contract since 1999. Under the terms of the exploration contract, the Government of the Republic of Yemen has the right to offer to acquire, on commercial terms, an undivided interest of up to 49% in this exploration license. In this event, the Company’s interest (and that of any partner) would be diluted proportionately.

In January 2012, the exploration license containing the Al Hariqah project was renewed under the new Yemeni mining code. The new license is valid for an initial four year period and can be renewed for two further four year periods. In addition, the license has been expanded from its original 71 km² to 956 km². The new license area covers a trend of gold anomalies discovered by Cantex’s regional exploration program which could reflect additional mineralization similar to that found at Al Hariqah.

In December 2011, the Company entered into an agreement with WCP Resources Ltd (“WCP”) wherein WCP can earn an interest in the Al Hariqah gold project by funding advanced exploration and mine development to commercial production. The staged earn-in agreement allows WCP to earn up to a 70% interest in the project after funding a minimum of US\$30,000,000 over a seven year period.

WCP has two years from February 2012 to exercise an option to commence the earn-in to the Project after which they may earn an initial 40% interest in the project by expending US\$5,000,000 within two years. A further expenditure of US\$10,000,000 within the following two years would increase its interest in the project to 50% and a further US\$15,000,000 within the following three years would increase its interest in the Project to 70%. In circumstances where WCP earn a 70% interest in the project and a decision to mine the project is reached, WCP will carry Cantex’s portion of mine construction costs to initial production via a loan at an agreed/market interest rate. The loan would be repaid from the first 80% of profits earned by Cantex.

(b) *Nevada program*

In 2004, the Company acquired a 100% interest in ten claim groups of gold exploration claims in the state of Nevada from Sovereign Gold Corp. (“Sovereign”) for consideration of US\$125,000, 3,000,000 common shares and a promissory note to Sovereign for US\$33,000 for reimbursement of Sovereign’s costs of maintaining the claims in good standing. The Company has retained six of the claim groups comprised of 140 claims over 1,171 hectares.

Reclamation bonds of \$20,274 (July 31, 2012 - \$20,274) have been posted with the State of Nevada.

Cantex Mine Development Corp.

Notes to the condensed consolidated interim financial statements

October 31, 2012

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

4. Mineral property interests (continued)

(c) Yukon program

In February 2011, the Company acquired, by staking, two claim blocks located approximately 100 km northeast of Mayo, Yukon, Canada. A 38 claim block has been staked adjacent to a new belt of gold mineralization recently discovered in the area. In addition, a 48 claim block has been staked over the source area of several arsenic anomalies as reported on the government stream sediment maps.

In September 2012, the Company acquired, by staking, an additional eight claim blocks totaling 1,380 claims covering 28,000 hectares.

5. Property and equipment

	Field equipment	Computer equipment	Automotive	Total
	\$	\$	\$	\$
Cost				
Balance October 31, 2012, July 31, 2012 and 2011	523,973	2,514	6,978	533,465
Accumulated depreciation				
Balance July 31, 2011	500,002	2,514	6,978	509,494
Depreciation	9,433	-	-	9,433
Balance July 31, 2012	509,435	2,514	6,978	518,927
Depreciation	2,358	-	-	2,358
Balance October 31, 2012	511,793	2,514	6,978	521,285
Carrying amounts:				
As at July 31, 2011	23,971	-	-	23,971
As at July 31, 2012	14,538	-	-	14,538
As at October 31, 2012	12,180	-	-	12,180

6. Related party transactions and balances

During the three month periods ended October 31, 2012 and 2011, the Company had related party transactions with the following companies related by way of common directors or shareholders:

- C.F. Mineral Research Ltd. ("CF Minerals") – a private company owned by Cantex Chairman, Charles Fipke. CF Minerals provides heavy mineral geochemistry services to the Company.
- Kel-Ex Development Ltd. ("Kel-Ex") - a private company owned by Cantex Chairman, Charles Fipke. Kel-Ex provides administration, payroll and office services to the Company.
- Element 29 Ventures Ltd. ("Element 29") - a private company owned by Cantex CEO, Chad Ulansky. Element 29 provides geological consulting services to the Company.
- Metalex Ventures Ltd. ("Metalex") - a publicly listed company with common directors and management. Metalex shares office space with Cantex and thus have certain shared expenditures which get re-billed on a cost-recovery basis.

Cantex Mine Development Corp.

Notes to the condensed consolidated interim financial statements

October 31, 2012

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

6. Related party transactions and balances (continued)

(a) Related party expenses

The Company's related party expenses consist of the following amounts:

	Three months ended October 31,	
	2012	2011
	\$	\$
Laboratory and mineralogical costs	88,327	4,225
Geological consulting fees	83,279	37,839
Shared field expenditures	21,406	8,047
Shared office and administrative costs	15,391	18,661
	208,403	68,772

The Company's related party expenses relate to the following related parties:

	Three months ended October 31,	
	2012	2011
	\$	\$
C.F. Mineral Research Ltd.	88,327	4,225
Kel-Ex Development Ltd.	107,288	30,244
Element 29 Ventures Ltd.	10,762	24,730
Metalex Ventures Ltd.	2,026	9,573
	208,403	68,772

(b) Related party recoveries

The Company's expenses recovered from related parties consist of the following amounts:

	Three months ended October 31,	
	2012	2011
	\$	\$
Shared office and administrative costs	1,213	10,218
	1,213	10,218

The Company's related party expenses relate to the following related parties:

	Three months ended October 31,	
	2012	2011
	\$	\$
Kel-Ex Development Ltd.	1,213	10,218
	1,213	10,218

Cantex Mine Development Corp.

Notes to the condensed consolidated interim financial statements

October 31, 2012

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

6. Related party transactions and balances (continued)

(c) Related party liabilities

The liabilities of the Company include the following amounts due to related parties:

	Three months ended October 31,	
	2012	2011
	\$	\$
C.F. Mineral Research Ltd.	197,796	436,829
Kel-Ex Development Ltd.	4,320,126	3,062,208
Element 29 Ventures Ltd.	12,053	89,840
Metalex Ventures Ltd.	2,269	21,879
	<u>4,532,244</u>	<u>3,610,756</u>

(d) Key management personnel compensation

The remuneration of directors and key management personnel is as follows:

	Three months ended October 31,	
	2012	2011
	\$	\$
Share-based compensation ⁽¹⁾	-	-
Wages and benefits ⁽²⁾	17,956	35,545
Total	<u>17,956</u>	<u>35,545</u>

(1) Share-based compensation is the fair value of options granted to directors and management personnel during the year.

(2) Wages and benefits include amounts paid or accrued for geological consulting fees and payroll costs.

7. Commitments

The Company is committed to minimum future lease payments for office premises through to March, 2014 as follows:

Fiscal year ending July 31, 2013	\$ 8,666
Fiscal year ending July 31, 2014	\$ 7,702

Cantex Mine Development Corp.

Notes to the condensed consolidated interim financial statements

October 31, 2012

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

8. Share capital and reserves

(a) *Authorized share capital*

The authorized share capital of the Company is an unlimited number of common shares without par value. All issued shares are fully paid.

(b) *Stock option plan*

The Company, in accordance with its shareholder approved stock option plan as amended, is authorized to grant options to directors, officers, employees and consultants, to acquire up to 5% of the aggregate issued and outstanding common shares. The exercise price of the options issued under the plan is determined by the Board of Directors at the time the options are granted. The options vest immediately upon grant, unless otherwise determined by the Board of Directors or Exchange regulations, and are exercisable for a period of up to ten years from the date of grant.

Details are as follows:

	Number	Weighted Average Exercise price \$
Outstanding, July 31, 2011	11,700,000	0.13
Cancelled	(72,500)	0.20
Outstanding, July 31, 2012	11,627,500	0.13
Outstanding, October 31, 2012	11,627,500	0.13

The following stock options were outstanding and exercisable at October 31, 2012:

Number	Exercise price \$	Expiry date
100,000	0.10	November 25, 2012
3,727,500	0.20	March 18, 2013
7,800,000	0.10	January 28, 2019
11,627,500		

Cantex Mine Development Corp.

Notes to the condensed consolidated interim financial statements

October 31, 2012

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

9. Segmented information

The Company manages its business as a single operating segment: mineral exploration. The Company operates in both foreign and domestic countries as follows:

	Three months ended October 31,	
	2012	2011
	\$	\$
Net loss		
Canada	1,053,703	243,647
Yemen	15,423	144,471
United States of America	23,032	39,936
	1,092,158	428,054

	October 31,	July 31,
	2012	2012
	\$	\$
Property and equipment		
Yemen	12,180	14,538
	12,180	14,538

10. Capital management

The Company includes equity, comprising of issued common shares, reserves and deficit, in the definition of capital.

The Company's objectives when managing capital is to maintain its ability to continue as a going concern in order to provide returns for shareholders and benefits for other stakeholders.

The Company expects its current capital resources will not be sufficient to complete its exploration and development plans and operations through its current operating period and it will be required to raise additional funds through future equity issuances or secure other financing. To date, the Company has relied on advances from related parties to fund its operations and exploration activities and expects continued financial support through the next twelve months. The Company is currently not subject to externally imposed capital requirements. The Company does not pay out dividends. The Company's investment policy is to invest its short-term excess cash in secure deposits in large Canadian financial institutions.

The Company's primary objective with respect to capital management is to ensure adequate liquid capital resources are in place to fund the exploration and development of its mineral properties while maintaining its ongoing operations. To secure the additional capital to pursue these plans, the Company may attempt to raise additional funds through the issuance of debt and or equity.

Cantex Mine Development Corp.

Notes to the condensed consolidated interim financial statements

October 31, 2012

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

11. Financial instruments and risk management

As at October 31, 2012, the Company's financial instruments are cash, trade and other receivables, trade and other payables and amounts due to related parties. The amounts reflected in the balance sheet are carrying amounts and approximate their fair values due to their short-term nature. These financial instruments are classified as follows:

- Cash is classified as loans and receivables and is measured on the statement of financial position at fair value;
- Trade and other receivables are classified as loans and receivables and are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest method; and
- Trade and other payables and amounts due to related parties are classified as other liabilities and are initially measured at fair value and subsequent periodic revaluations are recorded at amortized cost using the effective interest rate method.

The Company's financial instruments are exposed to certain financial risks, including currency, credit, liquidity and price risk.

Fair value is defined as the price what would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date.

The fair value hierarchy establishes three levels to classify the inputs to valuation techniques used to measure fair value. The three levels of the fair value hierarchy are described below:

Level 1 – Unadjusted quoted prices in active markets that are accessible at the measurement date for identical, unrestricted assets or liabilities.

Level 2 – Quoted prices in markets that are not active, quoted prices for similar assets or liabilities in active markets, or inputs that are observable, either directly or indirectly, for substantially the full term of the asset or liabilities.

Level 3 – Prices or valuation techniques that require inputs that are both significant to fair value measurement and unobservable (supported by little or no market activity).

The Company has no financial instruments measured at levels 1, 2 or 3 of the fair value hierarchy for the periods presented.

Currency risk - The Company is exposed to the financial risk related to the fluctuation of foreign exchange rates. The Company operates in Yemen and as such, a portion of its expenses are incurred in the local currency and US dollars. A significant change in the currency exchange rates could have an effect on the Company's results of operations, financial position or cash flows. The Company has not hedged its exposure to currency fluctuations.

At October 31, 2012, the Company is exposed to currency risk relating to funds held in U.S. dollars and Yemen rials with a value of approximately \$534,458 (July 31, 2012: \$333,139). The impact of a 5% change in the U.S. dollar and Yemen rials exchange rate to the Canadian dollar would not be material.

Cantex Mine Development Corp.

Notes to the condensed consolidated interim financial statements

October 31, 2012

(Unaudited – Prepared by Management)

(Expressed in Canadian dollars)

11. Financial instruments and risk management (continued)

Credit risk - Credit risk is the risk of an unexpected loss if a customer or third party to a financial instrument fails to meet its contractual obligations. The majority of the Company's cash is held through a large Canadian financial institution with a high investment grade rating.

At October 31, 2012, the Company has no financial assets that are past due or impaired due to credit risk defaults. The Company's receivables consist mainly of mineral property recoveries due from partners and HST receivable due from the Federal Government of Canada. The Company is subject to the risk that its partners will default on amounts owing for their portion of exploration expenditures. The Company's maximum credit risk at October 31, 2012 is \$Nil (subsequently received; July 31, 2012: \$136,993). Any such amounts defaulted would dilute that partners' interest in the exploration joint venture and would require the Company to pick up the proportionate share of future exploration expenditures.

Liquidity risk - Liquidity risk is the risk that the Company will not be able to meet its financial obligations as they fall due. The Company manages its liquidity risk through the management of its capital structure and financial leverage as outlined in Note 10 to the consolidated financial statements.

Trade and other payables are generally due within 30 days. No significant amounts are past due.

Amounts due to related parties have no fixed terms of repayment, are unsecured and are non-interest bearing.

Price risk - The Company is exposed to price risk with respect to commodity prices. The Company closely monitors commodity prices to determine the appropriate course of action to be taken by the Company.

12. Contingencies

The Company is from time to time involved in various claims, legal proceedings and tax assessments arising in the ordinary course of business. The Company does not believe that adverse decisions in any pending or threatened proceedings related to any matter, or any amount which it may be required to pay by reason thereof, will have a material effect on the financial conditions or future results of operations of the Company.